

people in focus

The Grant Thornton periodical
focussing on people and
relationship issues in management

Grant Thornton 

In this edition of **people in focus**, we look at the family creed.

A critical element of the functioning of all family businesses is the relationship between the family members and their roles in the business. In this edition of People in Focus we look at the role of the family creed in clarifying these and other family related issues within the organisation.

What is a family creed?

In essence a family creed spells out the family's core values and basic principles



in relation to their business. It is effectively the family's strategic plan defining the family's overall business goals, ethics and family relationships and then how these matters translate to operational policies in the business.

Unlike the general business mission statement it is a confidential family document and should be kept private between the family members. A family creed is unique to each family but all have some basic core requirements.

What purpose does it serve?

One of the greatest strengths about a family owned business is the commitment, passion and involvement of the family members. However, at times of crisis or unexpected change this lack of emotional separation can be very damaging and can hinder achieving a successful outcome.

It is at this point that a family creed shows its true worth. It provides an agreed, clearly defined and articulated set of principles which can be followed at these times. From this, a clear decision can be

made based on this criteria and this decision should be accepted by all family members as they have agreed to the process when drafting the family creed.

It is not just at times of crisis that this document is important. It also assists greatly in allowing each of the family members to function and understand the requirements with which they must conduct themselves within the business, their personal position and the overriding purpose of the family business.

What should it contain?

As discussed above the family creed is a document specific to each particular family and there is not a set 'one size fits all' format. However each family creed needs to address three core areas:

- general principles and mission statements
- specific principles which govern the interaction of family members and the business itself
- standard operational practices and procedures in relation to the family.

What needs to be covered by the **family creed**?

General principles and mission statements

The family creed should outline the family's binding principles, practices and philosophies. These are the core values of the family and should clearly express the business ethics and the overriding roles of the family within the business. It should answer the following questions:

- why do we care about the business?
- what are our obligations toward each other?
- what are our responsibilities as owners of the business?
- what are the family members risk tolerances in relation to the business?
- how can we prepare ourselves to be effective owners and leaders of the business?
- why is the business better because the family owns it?

Specific principles which govern the interaction of family members and the business itself

Once the core principles are agreed the specific overall family and business relationships need to be reviewed. This includes principles such as:

- family members should endeavour to deal professionally with one another and not bring personal agendas or bias to the business
- family members should respect one another, be loyal and treat one another fairly
- family members should restrict public and private criticism of other family members
- family members should act in good faith and not place undue pressure on business officials (this includes requesting employment or other benefits outside the norm)
- family members should agree on priorities in relation to what they say as the proper commitment of the business to the community

Practices and procedures which need to be followed

Once the principles have been established the family needs to agree on basic family practices and procedures. This will greatly assist at times of unexpected events and crisis. These would include agreed procedures in relation to:

- sound entry principles for family members wishing to join the business
- family members' participation rights in the business
- family members' rights in relation to exiting the business
- family members' compensation and remuneration policies
- family members' educational needs and plans
- practical plans for improvement of the business and employee conditions
- dispute resolution procedures

Process is as important as the result

Once all of the above is documented each member of the family should be clear as to what the goals of the business are and what their role is in relation to this. Quite often the process of drafting and finalising the family creed is as important as the final product itself. This is because it allows the majority of issues to be addressed and procedures agreed upon prior to an event occurring. That is, it allows you to deal with the 'hypothetical' before it becomes a 'reality'. This allows family members to agree to a course of action early and avoids conflicts arising.

A documented family creed is therefore an important part of the efficient functioning of a successful family business.

Grant Thornton can assist your family business on this issue by holding a strategic business planning session. Should you wish to know more about these sessions, please contact your Grant Thornton advisor for further information.



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