Benjamin Vetterli, Senior Family Advisor at LGT, explains why a family constitution is especially important for entrepreneurial families.

**Benjamin Vetterli, what is a family constitution and why is it important?**

A family constitution is often also referred to as a family charter, code or pact. Regardless of what it is called, it is crucial that a family constitution sets out the family values that everyone identifies with. Although not legally binding, it represents an important agreement within the family and can have implications for legal arrangements such as marriage and inheritance contracts, shareholder agreements and the establishment of corporate structures.

*Money, death, who has a say, values, membership... these are all topics that come up when a family constitution is being created. How do you, as an external advisor, manage*
to convince family members to establish such a set of rules?

It can be a minefield, quite simply because there are a lot of emotions involved. But a family almost inevitably needs the support of an independent, neutral third party, particularly when it comes to getting the process going. Succession is a good example of this. Usually, succession is defined in family constitutions, it’s a topic that many entrepreneurial families have difficulty talking about. Generally speaking, it should be the older generation to address this topic with the family; at least according to the literature and experts on the subject.

«This leaves families in a stalemate»

In practice, however, many parents find it difficult to start this discussion, despite the fact they know how important it is. Often, it’s because they don’t want to push their children to take on a specific role, while others are reluctant to hand their leadership role over to the younger generation. In contrast, the next generation is generally very eager to talk about succession and the other aspects contained in a family constitution. They want to plan their lives and know, for example, who will take over the family business. However, openly voicing this legitimate question is often not easy for them.

This leaves families in a stalemate: both parties want to talk about the issue, but no one brings it up. That’s why many families are grateful for outside help.

How can you, as an external consultant, get the discussion going?

When you begin the process, it’s important to break the ice. We start with a shortlist of questions to determine how the family sees the current situation. For example, we ask whether a succession plan is in place and has been shared with the family, or if the family has identified any common values. It’s interesting to note that contrary to their children, the older generation often answers these questions affirmatively and has a clear understanding of the situation. This discrepancy is an eye-opener for many family members and fuels initial discussions.

«A discussion about shared values is key»
One thing I see frequently during this phase is that it is in fact often the traditional head of the family and business who is left alone with their questions about how the family and company should be organized. That’s why LGT provides them with platforms where they can talk to others who are in a similar situation. That can be a round table or the LGT Family Forum – a seminar on family governance. This framework facilitates an open exchange and, based on the feedback we’ve received, is very enriching.

It’s important that when starting the process of creating a family constitution, the rules for the way forward are established by all of the family members and that everyone remains involved. In a first step, all of the family members are asked about their understanding of the current situation and the family’s needs and goals. This is generally done in individual discussions, and the results are then consolidated into an initial overall picture.

**What are the next steps once this foundation has been laid?**

A discussion about shared values is key, as they are the basis of everything. Some of the questions that should be focused on include: What does our family stand for? What is our strategy, what is our vision? What direction do we want to take as a family in the future?

The questions about passing on values are especially important for the older generation. Even more so if the children don’t know the founders of the family business. Or to put it another way: it’s particularly important for the younger generation to be familiar with the values of the founding generation in order to identify with the family and the family business.

«The document will only stand the test if everyone supports it»

During this open exchange, contentious issues can come to light. These should be addressed one by one, and an agreement should be reached on each point. This is an iterative process that requires a lot of time. But it’s worth taking that time in order to develop a set of common values and goals. This is the basis upon which a family constitution is built. But the document will only stand the test if everyone supports it.

*A family constitution is not legally binding. Why is it nevertheless important for high-net-worth families and especially for entrepreneurial families?*
What Keeps Families Together?
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Ideally, when drafting their family constitution, the family will find common ground that they can then draw on in the future. By actively involving all of the family members, it is by nature much more viable than a legal document that seeks to govern every eventuality and can still be challenged in court.

Since the assets of these families are usually largely tied up in the business, it’s often not possible to treat all the children equally in the event of succession. If this has been discussed within the framework of the family constitution and everyone has been able to share their views, individual family members tend to be more willing to forego a certain share of the wealth. This is another aspect that underscores the benefits of creating a family constitution.

Is the process complete once the constitution has been drafted?

In order for a family constitution to last over time, it should be able to evolve; it should be possible for each generation to review and adapt the shared values at its core to changing circumstances and society. This makes it a good basis for concrete, legally binding documents, such as contracts and corporate structures.

«Companies that were run by the eldest son, are now being successfully jointly managed by several siblings»

Each generation has to find new, viable solutions for their specific situation. In traditionally patriarchal countries like Italy, a shift in societal values is currently underway. One example of this is that companies that were traditionally run by the eldest son alone, such as Barilla or Antinori, are now being very successfully jointly managed by several siblings. However, which rules are included in the family constitution to govern such matters ultimately depends on the family’s specific circumstances.

Benjamin Vetterli is Senior Family Advisor UHNWI at LGT Bank Switzerland. He has been advising companies and entrepreneurs on tax, governance and legal matters for 20 years. After completing his law degree at the University of Zürich, passing the bar exam and finishing his training as a federally certified tax expert, he became Senior Consultant Tax at PwC and then worked at a major Swiss bank, where he held various management roles and was responsible for providing tax, financial and succession advice to clients in Switzerland.