



The Role of Family Protocol in the Business Family Longevity



IBGC Instituto Brasileiro de Governança Corporativa

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Presentation

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BGC's publications have the goal of disseminating good practices of corporate governance, being, therefore, a communication channel between the institute and its stakeholders, comprehending its own members, businesses and other public and private organizations, as well as the Brazilian society and similar international organizations.

To assist the readers in searching and accessing relevant information, IBGC is restructuring its collections based on the contents and subjects of the publications.

This publication is the first of the "IBGC Segmentos" series, which offers recommendations to specific audiences or market sectors, such as associations, state-owned companies, co-ops, family businesses, privately-owned companies, financial institutions, among others. The series represents a form of offering governance recommendations to organizations with specific needs according to their structures, special characteristics or corporate control.

Targeted at managers, partners and heirs of family businesses, this work refers to an important document within the sphere of the business families: the family protocol. It is an agreement celebrated among family members that states, based on the tradition and the moral legacy of ancestors, principles, and rules to guide the relationship among members of the business family and among these members and the company.

Through this work, IBGC hopes to introduce the reader to the relevance of the family protocol as a tool to assist members of the business families to have a better understanding of their rights, duties, and responsibilities in the search for family harmony and for business longevity.



Preface

Preface

hrough this work, IBGC sets an additional important stimulus and contribution front to the structure and dissemination of good practices among family businesses in Brazil.

No other subject would be better and more relevant to inaugurate the "IBGC Segmentos" series than the family protocol.

By defining rules and procedures for the relationship among family members and for the relationship among the family and the company, the protocol is a structuring document that contributes to the legitimacy of both family and corporate governance.

The principles, rules, and directives in the protocol guide behaviors and constitute a backbone to the governance model.

In addition, the process of structuring a protocol produces results inherent to the trajectory itself, given that it is essentially a participatory process, which also demands family members' alignment. Thus, it turns into an important exercise for the learning of teamwork, respecting differences, developing the ability to listen and deciding what is best for all and for the company.

An exercise that has to be anchored in the family values and whose main guidance is respect.

As the orientations and guidance shared in this publication reveal, this is a viable and accessible process for family businesses of different sizes, which results in a clear document concerning mission, vision, and responsibilities. Its advantages go way beyond the direct results.

However, just as any other document, the protocol does not generate impact by itself. For its effective implementation, it has to be practiced on a daily basis. This is a challenge faced by the companies.

The protocol has to be brought to life, a constant referential for the relationship among family members, company, and stakeholders. The practice requires examples on which to base both



Preface

the values and the rules. Continuous observation is the only way to get these examples.

It should be reminded that an important path to keep protocol vitality is communication. It includes the creation of a straightforward document, easy to read and accessible for all, and the activation of its existence by communicating its applications in the proper forums.

Lastly, as it cannot be helped, it is important to remember that the protocol is a

dynamic document, requiring reviews on a regular basis, according to the governance evolvement, though always anchored in the family's principles and values.

I wish you all a good reading and, most of all, the establishment of structuring processes and the creation of protocols that will assist in the development of family businesses in Brazil.

Célia Picon









Introduction

B eing the partner or heir of a healthy and productive family is usually a source of pride and advantages, accompanied by the great responsibility of preserving and continuing the founders' legacy and ensuring the longevity of a business that is a source of opportunity and wealth to many stakeholders.

The odds of succeeding in this task are increased when the business family adopts habits and practices that help to understand and respect the rights and duties of all members, in order to promote the understanding, the engagement, and the family union in their business. The family protocol is a very useful mechanism to reach this goal. It states clear principles, values, and rules to guide the relationship among family members and among these and the managers (whether family members or not) and partners. The protocol, also called family constitution or statute by certain authors, is an established agreement among family members that follows the precepts of the moral legacy and of the group's history and tradition.

A product of dialogue and the quest for consensus among family members, the document constitutes an important tool to support the relationship among family members, the relationship among these members and their assets, and its evolvement over time. It creates the required conditions to reinforce cohesion among the partners and to preserve and pass the family's legacy forward.

The family has the duty of organizing itself, in a manner to ensure that its decision-making ability be both assured and disciplined. Moreover, the debates preceding the protocol implementation contribute to raise questioning and promote relevant debates among partners and heirs, not forgetting that the document must reflect the demands and needs of each particular family, as presented at the time. It is also a way of preventing internal conflicts which could



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◆ For further detail, see IBGC's The Business Family Governance, São Paulo, IBGC, 2020 (Corporate Handbooks Series, no. 15).

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weaken the company's corporate governance and decision-making processes.

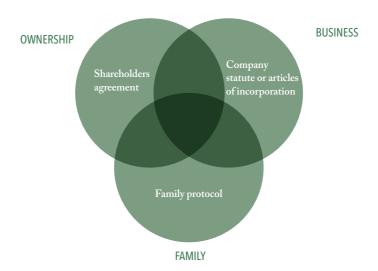
The protocol is key in composing the three dimensions that integrate the family business controlling system • – the family, the ownership, and the management-, especially taking into account that actors of each one of these dimensions may hold different visions and interests concerning numerous subjects. Each one of these dimensions must be managed in accordance to its own nature, directives, and base documents. The protocol provides guidance, above all, in the family sphere, acting between (and inside) generations and in their relationship to the company. The shareholders agreement addresses the ownership sphere, while the company statute or articles of incorporation concern address the management sphere. It is natural, however, that the contents of these documents approach subjects concerning other dimensions. Management of the subjects under each sphere depends, therefore, on the culture and the structure of the family and the organization, as shown by the figure below. .

This publication's goal is to guide the business families throughout the entire process of elaborating a protocol, raising possible matters to be approached, challenges to be faced, in addition to the advantages of this work. This work does not intend to be exhaustive nor to cover the myriad of details and variations that may be a reality in each family-such as marital regimes, religious options that call for donations, the sudden death of a founder or an heir etc. Its goal, in fact, is to show that, by diving into its own history, valuing its legacy, and guiding and encouraging the education process of the business family (partners and partners to be) concerning matters related to the partnership and its corporate governance, the family may establish solid mechanisms for continued investment in the intellectual and human capital of the heirs, who are partners to be, while it also grows stronger.

② Adapted from IBGC's *The Business Family Corporate Governance*, op. cit., first presented in K. Gersick et al., Generation to Generation: Life Cycles of Family Business, Boston, HBS, 1997.



Main documents in the family business control system



Where to Start: Basic Concepts

THE MOST COMMON DOUBTS OF BUSINESS FAMILIES WHEN CREATING A PROTOCOL

A family protocol must mirror the dynamics and needs of each family. Ideally, the process begins by selecting the topics considered relevant by the group and by discussing member's expectations and desires. Then, we present answers to the main questions about the work of elaborating a protocol to assist each family in finding its own path to evolution, in an organized manner, with direction and meaning.

What is a family protocol?

A document agreed upon between partners and heirs of business families that represents the conversion of expectations into an agreement written in a formal instrument. The instrument states roles and responsibilities, rights and duties, rules and sanctions, which are applicable to all members of the business family.

Why establish a protocol?

The protocol is key to establish values and principles to family's actions, in addition to encouraging the moral commitment of family members to the business's assets and its future, as well as to give coherence to the company's founders' legacy. Along with the principles, there are rules to discipline the family concerning the assets and the business management, in addition to directives for the engagement of family members in the company and succession planning. Rules are negotiable; principles and values are not. The rules



may be reviewed from time to time, in order to reflect the evolution of the company, the family, and the environment itself. The comprehensiveness and depth of such rules will largely depend on the evolvement stage of the business family.

It is worth mentioning that, in young organizations, the company's three dimensions—family, management, and ownership—overlap more often than in mature companies. In this process, personal interests and business matters are mixed, which may create an emotionally unstable environment and harm decisions concerning the company. A protocol capable of guiding the business course based on agreed values and principles helps preserving a healthy relationship among all involved and, if well established and applied, is one of the strengths of the family business.

Who should lead the process?

The initiative to elaborate a protocol may come from any group member who, with the family's approval, is able to gather a group of people to work on the document. In this initial stage, it is recommended to engage as many family representatives as possible, especially from the numerous family generations and units. If the business family is in a more advanced governance stage and holds a family council, this body may lead the process, establishing an interface with other governance structures, in order to propose and monitor the family activities' scope concerning this matter. In addition, a small work group or committee may be created, reporting regularly to the family council. According to each family's needs and complexity, an external aid, acting as facilitator, may contribute to the process, as we shall see in this document.

When is the best time to think about it?

The sooner the process begins the better and the easier the interaction among all parties, and more grounds are built to orderly grow, preventing uncertainties related to the family roles within the company. It is common for the initiative to elaborate a protocol for times of crisis, although, ideally, this work should be carried out when the family is living a harmonious moment, as it will help to bargain the protocol terms. It is precisely when everything goes smoothly that this document finds the most favorable environment to be built on solid grounds, which helps ensure that the founders' values are passed on to the family over time.

One way of conducting the process is to have it meet the needs and demands of the business family at that time—because, at the beginning, all future needs cannot be foreseen. As it goes into practice, and as time goes by, other demands will naturally emerge. That is, this is a continuous, constant process, which requires updates and adjustments over time and according to the family's growth. In any circumstance, the family must want to get organized to start this work, and the interest in taking the company further must be seen as a mission by the future

Each family decides the right moment to establish its "constitution;" however, the sooner the process begins, the better and the easier the interaction among the parties will be.



generations. In this case, they will have the task of mobilizing and organizing family members, especially the founders, towards this work. If they have decided to perpetuate the business, they will need to directly engage in the process of establishing a protocol, given that delegating it is not a possibility. In face of the richness of the process, it is better to avoid the adoption of a pre-established model, one that had not been elaborated by the group itself (with or without the help of external facilitators). The document must be "built" little by little, reflecting the family's principles and values.

What about conflicts?

Conflicts waste an energy that is essential to the expansion and improvement of the company's activities. When properly managed, however, they contribute to the business's own maturing and evolvement. In elaborating a protocol, for instance, the conflicting positions are, very often, unavoidable and lead to discussions that help overcome differences and boost the creation of a solid and efficient document. At that moment, it is important for family members to be aware, thus, that negotiation purposes are greater than occasional personal quarrels.

However, it is not only during the making of the protocol that conflicts emerge. The document, hence, may also state mechanisms and methodologies that will guide the family in dealing with occasional divergences or tough conversations throughout its trajectory.

Can any family, regardless of its size, elaborate a protocol?

The elaboration of a protocol is beneficial to any family. Small business families (com-

mon in the first generation) may find it difficult to consensus in decision-making. Thus, agreeing upon rules through the document prevents communication issues, opinion isolation, and the feeling, experienced by some, of lack of neutrality, especially from the founder. Likewise, it contributes to prevent the formation of antagonistic groups who may cause harm to the family, management, and ownership circles.

Business families with a greater number of members, usually from the second generation on, also benefit largely from the protocol, as it promotes agreement upon rules in face of a greater diversity of opinions, needs, and desires. In addition, it brings the newer generations closer to the founder's values and principles.

What sort of rule should be in a family protocol?

The rules comprehended in a family protocol must be clear and agreed upon by everyone, in order to prevent conflict or ambiguous situations, which may increase as the family grows. The rules contents may address broad and diverse topics, such as marital regimes or lifestyles that heirs may publicly display, in addition to others referenced in the table below. It is also important for the family protocol to clearly state the expectations of conduct by the business family, having a provision of admonition and sanctions. Thus, the document is well-established as the permanent guidance reference for the group, and the section targeting the sanctions works, in a quick comparison, as an insurance policy to the family—a set of resources with a precautious nature, made to be used only when extremely necessary.





Questions to guide the protocol elaboration

- Which of the family's principles and values may contribute to build the future based on the moral legacy left by the ancestors?
- Does the family share the same view of the future? What is it?
- Does the family intend to continue investing together? If not, in which situations, or future moment, could either the selling of the business or the search for external investing be considered?
- What are the criteria to define who is and who is not part of the family?
- What are the criteria to define who in the family has the right to work in the company?
- How are the selection and the succession of the business leaders made?
- Are mechanisms to manage conflicts among family members in place?
- Which are the family governance processes and structures and who should run them? Will the different family branches have a representative or will these bodies rely on a periodical leadership?
- How must the next generations take part in the family business and in the governance structures?
- Should the company engage in the formation or career guidance of those who are not interested in the company? If so, how?
- Who are the mentors of the newer generations?
- Will the company have a board of directors? How will the family take part in it?
- Will the family resort to external consultants for guidance on governance and management? How will the consultants participate?
- When and under which circumstance does a family member have the right to sell their share in the business? Which restrictions should be imposed to the selling?
- What are the limits for commercial transactions involving companies owned by partners and the family business? Do partners have authorization to pursue deals conflicting with the business family's interests?
- Can family members engage in political activity? Under which circumstances?

What are the good practices recommended in elaborating the protocol?

It is adequate for the family protocol elaboration to involve a preliminary discussion in order to ratify whether all family members want to remain partners in the existing business, or even in new business that may come to be developed by the family. Based

on this, the formal record of the family's identity (purpose, mission, vision and values) may be a first topic to be addressed in order to be added to the protocol.

Debating with other families who have already created their protocols may be enriching and help see the results of such work. Practical experience is often richer in the sense of setting the course.



It is highly recommended for the process of elaborating the protocol that it engages, somehow, all generations able to contribute with suggestions or criticism for the document, yet caring to understand the views and aspirations of young members. When the founders come up with the initiative to elaborate the protocol, when they "go for it," the process grows stronger and is legitimized, as they are able to aggregate the group. Without their participation, the document may lose strength and credibility. When third generation (or post-third generation) families start the process, founders often have already passed away. In this case, it is important to seek the older generation's support, because they have a deeper knowledge of the family history legacy and the business's evolution, in addition to having had the chance to be closer to the founders and even recall how values were conveyed to present day.

It is important that the work starts by mapping the group values, mission, and roles performed by family members both in the family and in the company. This allows the rules decision-making process to flow smooth-

ly. After all, before norms, there are "moral laws," which are set by the family history.

How important is it to have external aid from facilitators?

The family may-and perhaps needs to, in some cases-have the aid of external facilitators, someone unbiased, able to keep focus on the work and manage the debate over matters from the past. Many of these memories are good (the moral legacy, for instance), yet some hard topics need to be handled with care, in order to solve doubts involving them and so that possible conflicts be sorted out for good. The facilitator's role may be important to overcome tensions and to reach the desired alignment, given that the facilitator is able to use their neutrality to mediate the negotiation of controversial topics and to create an effective document. Thus, it is worth mentioning that the facilitator's role is not just to suggest a standard protocol model for the group. Actually, their role is to help the family in extracting the essential aspects to be part of the document, based on the specificities and needs of that special group of people.

Familiar Family Protocol Contents

SUGGESTED TOPICS TO BE DEBATED AND RECORDED

he protocol is an "affinities patchwork." The idea is to overcome extreme views towards building an alignment based on points of view accepted by everyone. We now present a few content suggestions that may be in the document, yet they should be seen as only a starting point for the discussions. The final shape and content of each family's protocol will emerge from the dialogue process among its members.

2.1 The Business Family's Mission, Vision, and Values

The founder's main motivation to first start the business must be the grounds to describe the family's mission, vision, values, and goals in the protocol. It is important for the document to present a short history of the business family, the founder's initial inspirations, their ideals, support from spouses who are or were leaders of the business (or had a decisive background role), and the role of new generations. With all this, it is possible to explain the business core reason and its evolution. This history must emphasize occasional divergences of views and culture and how they were solved to strengthen the company and the family.

The investigation about the history of the family business must start by looking into the founders, but also their parents, spouses, neighbors, and friends, since the legacy can often come from someone who did not directly work in the company, but rather either took part in or closely witnessed the business genesis, despite not being a family member. While in-



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vestigating and discussing this history, it is important for everyone to align their point of views concerning the willingness to engage in a business family and to keep it as such, jointly investing the resources required by the partnership, according to the discussed mission, vision, and values.

In these debates, some of the members might disagree with the course set and disclose their intention to leave the business family to dedicate themselves to other initiatives, built on different grounds and on their own values. It is even natural that, as generations go by, a pulverization of the capital, interests, and family's alignment concerning the business occurs. Some members may be willing to sell their participation to capitalize and invest in some other business or to have an experience separate from their moral legacy and assets inherited. In this case, it is important for the protocol to state the existence of formal exit rules from the partnership for those who do not desire to stay in it—a suggested topic to be included in the shareholders agreement-, preventing possible conflicts.

After these debates and enlightenment, the protocol will be the way of rat-

ifying the commitment of those who are willing to stay in the business family. The document must clearly state who should sign it and why, emphasizing that the resulting version was agreed upon by all of those who decided to stay as a part of the family set, that is, shareholders, heirs, and spouses. The compliance with the agreed rules will facilitate the understanding concerning the future of the family business, based on the principles and the moral legacy of the past. As we said before, dissonant voices—those partners unhappy with what was established during the meetings-do have the option of setting up a new business enterprise, under their own rules and with a protocol that fits their points of view.

The debates addressing the protocol may also address the family's social role, based on the willingness of its members to engage in voluntary actions to favor the community. Family businesses usually show a deep commitment to their communities, and such activities contribute to awake and solidify values, to develop professional skills, and to create a positive image for the business family and its business.



2.2 Roles Segmentation

Reach person's engagement in the business and in the three dimensions of the family business corporate governance – management, ownership. and family (mentioned at the beginning of this document) – guides the setting of the roles to be performed in the family and in the organization. The family is responsible, through the protocol, for supporting and guiding the heirs in their professional development. When there is an interest to join the business, it is ideal for the behavioral requirements and competencies to be met, concerning each of the positions to be fulfilled.

The protocol usually emphasizes the roles concerning the management dimension-that is, the family members who want to be executives - and those who want to work in the company. It is a good practice that the choice of individuals to fill management and directors roles takes into account one's calling, also grounded in proven negotiation and business leadership skills. The recruitment criteria must be those of the market. In the case of a CEO, for instance, it is important for the family to evaluate its needs and what are the required qualification and experience required by a successful business competitor (whether Brazilian or international, publicly traded or not). The market values meritocracy and efficiency, rather than Nepotism or accommodation. It is important that, once chosen, managers and directors, in addition to those who will work exclusively in the family governance

context, be properly trained to perform their roles, in spite of beliefs, impositions, and exclusive and personal views on shareholder control. However, sometimes the role of the members who are in the ownership dimension only is neglected-those family members who want to be shareholders only, without engaging in the daily business life. It is important to set the responsibilities of these individuals in the business family. What are their roles going to be in the business partnership and which are their rights and duties? When this role is not discussed and explained enough, there is a risk of conflict between the executive shareholders and non-executive shareholders. The first tend to believe they hold more rights, while the latter believe they have no obligations.

The family members who decide to have iust a shareholders or investors role have the responsibility of supporting those who hold executive positions in the business. This is no different from what is expected from shareholders and investors in any company. However, in the family business, it is possible that management issues get mixed up with family issues and end up contaminating the harmony among members. Issues such as paternalism, improper interference, power centralization, assets, and financial confusion, among others, need to be equated within the forums specifically created to manage family governance and to decide on the family's and the business's course (see figure below).

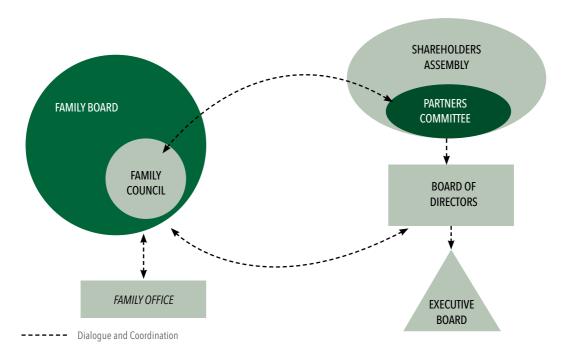








Family governance structure



Source: Cambridge Family Enterprise

The protocol describes the various governance bodies and their actions. The family council, focus on developing the family policies, seeking to mediate conflicts, to develop future generations, and to organize the family's heritage and history.

The group is elected by the family assembly, a forum that gathers all family members focusing especially in promoting integration and communication. As for the board of directors, it is responsible for the strategic direction of the business and for the election and supervision of the management team (executive board). It

is chosen by the shareholders assembly, which can also be in charge of electing the management body, if the company does not have a board of directors. The shareholders committee does not hold a deliberative role and may be created to discuss shareholders topics and pose recommendations to the assembly. Lastly, the family office is a body to support the family governance and serve the family membersoffering services ranging from a concierge (travel booking, house chores supervision, and shopping, among others) to the asset or philanthropy management.



2.3 Rules, Agreements, and Conducts

he current law does not address all topics concerning business families. This has an upside, given that families are free to decide which rules best fit their needs. The agreement stated in the protocol, therefore, while not legally binding, has already been accepted as a reference in some court rulings.

Overall, the rules stated in the document may be categorized into two greater groups, according to their nature:

- Family principles, which define behavior expectations, aimed at unity and strengthening of the family core, so as to survive the times.
- Conducts, which have a coercive force (even though it is not a legal force) and may be applied in the occasions when a family member fails to follow the principles or any other rule dictated by the protocol.

These rules may cover a variety of subjects, such as the following examples:

- Joining the company (as an employee or a shareholder)—the entry of any professional in the company, whether an heir or not, must always consider the abilities required for the company to grow profitable, sustainable, and in the long run. The market parameter is always a good measure. An individual who is a shareholder, family member, and employee is precisely at the crossroads of the three dimensions of the family business (family, company, and management). If the individual is a family member and heir only (holding merely the legal right of eventually being a partner), they will be at the intersection between family and management. Regardless, the rule may be the same to a family member, partner or heir.
- Recruitment, promotion, compensation and termination criteria - the requirement of specific abilities and training to the fulfillment of certain positions, previous experience, among other rules, gives more transparency to the hiring of family members to work in the company or governance bodies. The same holds true for matters related to promotions, compensation, and termination. When these criteria are well-defined, the risks and challenges faced by the family member when applying to a position to compete against other candidates are clear, given that they will not necessarily be accepted, and also will ensure that their presence at the company does not lie only on their family ties. For instance, what happens to those who apply for a seat on the board of directors? Are there seats for everyone? Which are the consequences for those who are not accepted? The transparency in the recruitment also enables these individuals to be accepted by the company's employees who are not family members.
- Use of goods and services the best recommendation is for family members not to be entitled to use goods and services or resort to employees or any other company's resources for private purposes. For instance, do the partners have the right to be granted loans by the company? Can the company sponsor family members in sports or cultural activities? Which are the criteria for the usage of the image or the family name related to the company in another



business owned by the partners? On these matters, it is also important to establish the priority criteria and have the spouses and other inlaws under it.

- Preparing the next generations to be accountable shareholders – It is recommended for the protocol to cover how the next generations will be prepared to carry on the legacy of the business family, its values and aspirations. Who will be their mentors? What is their role? What is the criteria to recruit the members who will participate in the mentoring programs? What is the recommended training?
- Budget for family governance It
 is recommended for the protocol
 to establish the parameters for allocating this budget and its usage
 criteria, leaving no doubt about the
 resource allocation: for instance,
 what share of dividends may be
 allocated to the training of family
 members who will join the business, or to the establishment of
 a family office. Where will the resources come from? Which activities
 should be covered by this budget?
- Exit of partnership It is essential for the family to establish the policies and criteria for a member to have the right to sell their share

- in the business. The goal of these rules must be to retain or boost the company's value in the event of selling. The rules to exit the partnership must be established in the shareholders agreement, yet may be annexed to the protocol in order to be implemented. The creation of a fund to buy the share of a partner who wants to leave the company may be discussed, so that the family may keep the business's ownership.
- Marital regimes/spouses or stepchildren – The participation of spouses may be quite interesting, as they bring elements from other cultures and are essential in the formation of the next generation. However, it is important to consider that separations may raise conflicts, affecting the entire family. A way of reducing the emotional stress associated to these events is to have the protocol establishing the ideal marital regime for the business family. It is worth saying, however, that the shareholders agreement is usually the document that establishes the rights of spouses concerning the family and business when it comes to the decisions of the family, the company, and the assets, in the event of separation or succession.



Possible sources of conflict

It is important that rules in the family protocol help prevent conflict among family members. The following list brings some of the main sources of tension:

- Performance of family members in charge of management
- Selection of family and company's future leaders.
- Decision of the compensation for the family members in charge of management.
- Decisions on business strategy.
- Decisions on who may or may not work in the business.
- Divergences among the family and the management on key-decisions.
- Decisions on reinvesting profits and dividend payouts.
- In-laws rights and duties concerning the business.
- Exit of partners.
- Evaluation parameters of company's stocks to the partners who are leaving the business.
- Decisions on the company's future based on the evolvement of the business environment.





3

Protocol Review

WHEN AND WHY TO UPDATE THE DOCUMENT'S STATEMENTS

he family protocol does not intend to cover all facts or hypothesis that may occur in the life of a family or company. It is a living document that, from time to time, has to be updated, in order to reflect new needs emerged from the business and business family culture evolvement.

After all, culture is a dynamic immaterial asset that comprehends not only generational aspects of blood ties, but also the role played by the presence of spouses in the evolvement of the family business. The culture induces important transformations concerning dichotomy aspects of preservation/tradition and evolution/modernization.

Without a doubt, it is a determinant factor for the required and opportune protocol review. The grounds of the review work are the principles and values of the business family.

It is important for this reflection process to be stated in the document itself, listing the set expiration times and periodical protocol review. This timeline will depend on the maturity of the business family and must be preferably fixed by consensus among its members. In any circumstance, it is important to consider that the document must be elaborated to last for a long time, even though the periodical review – or whenever required—be a good practice.

The established periodicity must be, however, an impediment for families to review the document before the set date. Whenever there is a void in the statement, the tradition and the good manners, in pair with the principles and values stated in the document, will be a guide for the family. Yet, under exceptional circumstances, the protocol might have to be reviewed outside of the previously set dates. This may happen, for instance, in the event of a crisis, of a suddenly death of family members or when a divorce leads to assets lawsuits





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that affect the company. In short, the protocol must be reviewed under any circumstance of eminent losses and when it is not possible to wait for the previously set date.

If the family had not yet set rules to address such circumstances, it may feel an

urgent need to gather and discuss them, without having to wait for the years planned until the protocol review. In all cases, it is important to state which structures of family governance will be able to engage in such discussions holding the proper neutrality to ensure a safe transition. It should also be evaluated if the engagement of external mediators will be required for this.

In a well-conducted process of protocol building, the periodical review is also important as a source of learning and development for the family. As the document is lapidated, the family evolves and relationships mature.



Final Considerations

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he creation and the continuous improvement of the protocol involve enriching debates for all who are part of the business family. The result of this work is a straight document concerning mission, mission, values, rules, and responsibilities of participants. The benefits of the process, however, go way beyond these formal structures.

In an effort to talk and reach a consensus, the family members growth a deeper knowledge about their own history. They enlarge their views on new opportunities and risks not yet considered in their future plans. They understand better their roles and work to prevent undue interferences in the family business. They learn how to manage their emotions positively and better prepare themselves to face the relationship and business challenges that will emerge further ahead.

All of this helps to build and strengthen the group's material assets, but. most of all, also develops a moral legacy that lasts across generations and grows greater than the company and the family themselves. This proves for a fact that the whole may be greater than the sum of the parts.





As the ownership goes on to being diluted across generations, the family must be organized so that the company has a steady base for growth, avoiding vulnerabilities such as the strong dependence on founders, the lack of a proper succession plan, and the lack of talents in and outside the family, among other factors.

In order to preserve the family enterprise, a culture based on values and game rules must be in place long before it is needed. It is within this context that the family protocol represents an extremely effective tool for family governance. If well-grounded on the values and family aspirations, the document would contribute to clear the rights and duties of each group members, help to prevent conflicts and strengthen a better connection among the several family members.

At PwC, we have been helping business families all around the world organize in order to facilitate the accomplishment of their ambitions and preserve the business's relevance throughout generations.

We realized, however, that few are the publications available addressing this matter with the required comprehensiveness, addressing the process of rules and behavior structuring that reflect the family's desires concerning their own future, as much as the company's future.

By sponsoring this IBGC publication, we believe to be contributing to fill in this blank and to the dissemination of a conceptual content, helping to strengthen governance in Brazilian business families.

Fernando Alves

Chairman and Senior Partner PwC Brazil Carlos Mendonça

Partner and Family Business Leader PwC Brazil **PUBLISHED BY**



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he chances of building a healthy and productive family business increase when the business family adopts habits and practices to help understand the rights and duties of all its members. The family protocol is an important tool in the quest for this objective, since it supports the relationship among family members, their relationship with the business and their assets, and their evolution throughout time.

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