

Considerations on Establishing Family Governance

By Director, Anna Johnson and Managing Director, Rachele Bouchand

A founder of a family business is often not only the driving force behind that business, but also the steward for the family's trusts, philanthropy, property and, ultimately, the family legacy. Like the spokes of a wheel, all of these interests together make up the family enterprise. As the next generation is brought into the management of this enterprise, most families will benefit from the skills, exercises, and practices which help to ensure the transition proceeds smoothly. Families successful with these transitions often use a third-party resource to guide them through this process to encourage a thoughtful and unbiased approach.

While each family's situation is unique, our experience has yielded a few ideas every family should consider:

Managing diverse goals and priorities: Each family member will have their own goals and priorities, which means that each participating family member will need to be able to manage diversity of thought. Generational gaps may exacerbate these differences as each generation is molded not only by family but also by events in the world around them. For example, a recent CNBC study showed that the millennial generation is much more focused on ESG and Impact Investing than baby boomers. ([Millennials spurred growth in ESG investing. Now all ages are on board \(cnbc.com\)](https://www.cnbc.com)). Discussion among family members should result in governing documents that allow for flexibility as future family members come together on desired adjustments.

Defining shared values and goals: Although family members may have different views, the family must ultimately come together to move the family forward. This exercise entails each family member identifying their own values and goals followed by the group identifying which values and goals the family shares. Having a clear understanding of what is important to the family as a whole will further the work of constructing how to get there.

Drafting a Family Mission Statement: Once the family has consensus on shared values and goals, this vision can be crafted into a Family Mission Statement which documents what the family is working toward. The mission statement can be circulated regularly at family meetings and also referred to during key decision points to bring the family back into alignment when diverse opinions may distract from the family's agreed-upon mission.

As a family's comfort level and commitment grows, many look to expand their governance structure with the following:

Developing a Family Constitution: As ownership and control transfers beyond the founding generation, the family will need a governance structure which defines how decisions are made and by whom. Just as the family business has a governing document providing for management and the process for transitions in management, the Family Constitution will formally document who is making the decisions, the process for doing so, and when and how transitions in leadership occur.

What the family jointly controls often has many spokes, such as the business, the philanthropy, other family assets, and the succession to the next generation. While there may be an overriding constitution for the family as a whole, each of these spokes may also need its own governance structure.

As the family puts together their governance (i.e., joint decision-making) structure, they should understand the function of the following entities:

Board of Directors. The Board of Directors oversees the family business. The board provides guidance to management, is involved in decision-making, and provides oversight. The board can consist of family members and thought should be given to board member qualifications and requirements. There is also benefit to the addition of an outside board member who is an expert in the area in which the family is focused, such as in the family's area of business, and whose insight may also

reduce any potential family discord. Any governance document should provide a procedure for electing or appointing board members.

Family Council. The Family Council is made up solely of family members. The council develops policies and procedures to preserve the family legacy and values, and acts as advisor to other family members. The council may initially focus on development of the immediate successors of the founder and then continue their work by focusing on the development of future generations. The council would be the entity that plans a Family Assembly for all the family members to vote on any new or updated policies.

Family Assembly. A Family Assembly is a structured family gathering. The event may include an update on the family business and other family ventures, a vote on any new or changing policies or procedures, an educational component, and also family activities to foster a continued connection. The activities could include a family picnic, a family competitive sport or game, or just space to allow family members who have not seen each other in a while to reconnect. Conducting a Family Assembly on a regular basis will increase the chances of success of a family working together on the same mission, be it a family business, or ongoing family enterprise after the sale of a business.

Family Office. The Family Office supports the family in all the above endeavors. Family office structures range in complexity, services offered, and in the case of “for-profit” family offices, may look like separate businesses. ([FEUSA Webinar](#))

The Family Office can consist of staff hired and managed by the family or could be outsourced to a private wealth management firm. Multi-Family Office firms who specialize in serving multiple families directly (or coordinate with existing single family offices) can often provide an array of services including, but not limited to: coordinating the Family Assembly details, document storage, investment management and record-keeping of family investments and family members’ personal investments (including joint assets), accounting and book-keeping, tax return or legal document coordination for family members, financial planning, bill pay or concierge services, and philanthropic planning.

It is important to note that certain family events are a great time to reevaluate the Family Office structure. These events may include selling the family business, retirement of key Family Office staff (or providers), incorporating shareholder and next generation education opportunities, or a major change in management structure of the family office or business.

Every family enterprise – a family’s unique body of trusts, philanthropy, property and, ultimately, legacy – is different, and there is no perfect structure. The first step in evaluating your current needs is to list the support needed to enable the family to function and thrive. Then determine if you have the staffing to serve those functions or would like a Multi-Family Office (or combination of service providers) to fill the gaps. Much like your family business, finding partners to help support your family enterprise can alleviate the operational burden and allow individual family members the freedom to pursue other opportunities.

Disclosure

This communication and its content are for informational and educational purposes only and should not be used as the basis for any investment decision. The information contained herein is based on publicly available sources believed to be reliable but is not a representation, expressed or implied, as to its accuracy, completeness, or correctness. No information available through this communication is intended or should be construed as any advice, recommendation or endorsement from us as to any legal, tax, investment or other matters, nor shall be considered a solicitation or offer to buy or sell any security, future, option or other financial instrument or to offer or provide any investment advice or service to any person in any jurisdiction. Nothing contained in this communication constitutes investment advice or offers any opinion with respect to the suitability of any security, and this communication has no regard to the specific investment objectives, financial situation and particular needs of any specific recipient. Past performance is no guarantee of future results.

Additional information and disclosure is available via our Form ADV, Part 2A, which is available upon request or at www.adviserinfo.sec.gov.

Any tax advice contained herein, including attachments, is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of (i) avoiding tax penalties that may be imposed on the taxpayer or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.