



## **FAMILY GOVERNANCE & FAMILY OFFICE**

*A family governance system is a key part of a comprehensive plan for managing generational wealth within families.*

Family governance can serve your family as a system, a process and a tool.

- As a system, it can manage family members' competing and interrelated interests, defining roles and boundaries and supporting the family's collective vision.
- As a process, it can help your family make decisions based on a shared sense of values, mission and vision.
- As a tool, it can help your family recognize and manage specific family, wealth and enterprise dynamics

### **Family legal architecture diagram.**

Your family governance system should be a living entity, one that builds on family tradition but can be amended as your family evolves.

The first phase of this process is designed to map out your family's complete architectural design, encompassing its individuals, entities and sources of wealth.

Presenting the current architectural framework enables your family, as well as your trusted advisors, to have a clear understanding of the entire landscape.

Once defined, your family has a baseline from which to work to build upon areas of strength and address areas of weakness.

A legal architecture diagram can help your family understand how the various family entities fit together and affect one another. Your advisors can use this diagram to find potential gaps and determine how family governance programs can best operate in conjunction with legal entities.

By identifying assets within each legal entity, your family gains further insight into its current financial affairs. Your advisors can then offer cash flow analysis, estate

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disposition and global asset allocation to help you determine the best ways to deploy financial resources to develop human and intellectual capital

### **Components of a Family Governance System**

A family governance system relies on programs designed to achieve specific outcomes. These programs operate as a family's strategic roadmap and include principles, agreements, policies, plans and entities

The *family assembly* and *family council* are the most popular family governance entities. For smaller families or families that are new to forming a governance system, these two entities may be the same

- ■ **Family assembly.**
  - The family assembly can involve all family members, key members only, or members who are old enough to understand and participate in the governance process.
  - The family assembly = the legislative branch of the governance system, initiating governance programs and discussing policy and procedure.
- ■ **Family council.**
  - As a multigenerational family of wealth expands, an elected family council may become the most efficient governance entity.
  - The family council manages family business, developing future generations, regulating family members' involvement with the family's business ventures, and aligning the business with the family's goals and objectives.
  - It operates as an executive and legislative hybrid entity, devising, managing and executing various protocols to achieve long-term success.
- ■ **Judicial entity.**
  - Judicial entity = resolves family conflicts and offers advice to reflect the family's shared goals and values.
  - Judicial entity = family elders or key family members who enjoy general family respect. *They work to resolve family conflicts* that cannot be addressed by the governance system's established conflict resolution programs, and their decisions are final.

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- **Subcommittees.**

- Some families create subcommittees to focus on specific areas of interest and importance, such as development of the next generation or the design of family retreats.
- Subcommittees typically fall under the family council's jurisdiction.
  - These forums develop and harness the family's human and intellectual capital by focusing on individual family members' interests.
  - By expanding the overall system's reach, subcommittees can help family members feel a sense of inclusion, purpose, excitement, engagement and accessibility in their relations with the family

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***Ways of Operating:***

- ❖ One family member per branch
- ❖ Meet a few times a year - maybe quarterly
- ❖ Outside facilitators could be hired - especially at the beginning while you are setting things up
- ❖ In Case of lack of harmony - no side bars - that act can cause conflicts

***Functions of the Family Council***

- Define the Family Vision/ Mission
- Family Council ensures continuity of family values
- Developing Family Creed, Beliefs & Philosophies
- Drafting & Implementing the family constitution/policies
- Developing family agenda for community service & philanthropies
- Provide Security for family members - if applicable
- Develop, implement, and mentor the Family Strategic Plan

***Key Family Governance Policies***

**Employment** - do not discriminate or favor family members; Establish an atmosphere of fairness & motivation

**Shareholding**- Establish ownership and transfers to ensure that they stay in the family

**Dividend**- Establish guiding principle for family dividend payments to help resolve differing family cash demands

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**Director Nomination-** Guidelines for electing Family members to the Board of Directors  
**Education-** guidelines for helping members gain educational or professional training - Family Education fund  
**Conflict Resolution-** To help resolve conflict between family members within a defined scope

### ***Best Practices: What to Learn***

- ☐ how succession and the transfer of wealth across generations are likely to fail without governance building initiatives by the incumbent generation;
- ☐ how to use a board; directors can help;
- ☐ how to set family policies, like family constitutions, that govern key areas of family concern;
- ☐ how to encourage trans-generational entrepreneurial activity and preserve the continued spirit of enterprise;
- ☐ how to counteract Materialism and/ or feelings of entitlement in the family; how to nurture active working members and the family's service and philanthropic initiatives; how to govern the family with a sense of purpose after a wealth creation events

### ***Summary***

Family assembly activities include learning about the business through presentations by family and non-family managers, discussing (not deciding) the direction of the company, being educated about what the company does or about important skills like reading financial statements.

It is also a good forum to get updated on changes in the family such as important events and accomplishments, and on changes in ownership.

For example, have any shares changed hands since the last meeting? Are there new tax laws shareholders need to be aware of?

Effective governance empowers leaders of wealthy families and/or families in business to make the most of the unique strength of a family enterprise: the synergy between a strong, unified owning family and a well-run family enterprise or family office.



The family council can be composed in several ways, the typical way being one member elected per family branch.

### **Philanthropic management**

An increasingly important part of the role of a family office is managing its philanthropic efforts. This will include the establishment and management of a foundation, and advice on donating to charitable causes.

#### **These services would typically involve:**

- • Philanthropic planning and strategy
- • Assistance with establishment and administration of charitable institutions
- • Guidance in planning a donation strategy
- • Advice on technical and operational management of charities
- • Formation of grant-making foundations and trusts
- • Organizing charitable activities and related due diligence

Estate and wealth transfer Family offices will be involved in business succession and legacy planning, enabling the transfer of wealth to the next generation. These services will include:

- *Wealth protection, transfer analysis and planning related to management of all types of assets and income source*

Administrative services Administrative services, or back-office services, are essential to the smooth running of a family office.

These services will include:

- • Support on general legal issues
- • Payment of invoices and taxes, and arranging tax compliance
- • Bill payment and review of expenses for authorization
- • Opening bank account
- • Bank statement reconciliation
- • Employee management and benefits
- • Legal referrals and management of legal firms
- • Public relations referrals and management of public relations firms
- • Technology systems referrals and management of these vendors
- • Compliance and control management

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Succession planning Ensuring a smooth succession and planning for future generations is integral to the long-term viability of the family office and the family it serves. These services will include:

- • Continuity planning relating to unanticipated disruptions in client leadership
- • Evaluation of the strengths, weaknesses, opportunities and threats (SWOT analysis) of senior executives both within and outside the family
- • Re-evaluation of family board regarding roles of non-family directors
- • Structuring of corporate social responsibility platforms and programs
- • Development of formal knowledge sharing and training programs
- • Implementation of intergenerational estate transfer plans
- • Adoption of a family charter or constitution, specifically aiming to:
  - ★ 1. Formalize the agreed structure and mission of the family business
  - ★ 2. Define roles and responsibilities of family and non-family members
  - ★ 3. Develop policies and procedures in line with family values and goals
  - ★ 4. Determine process to resolve critical business-related family disputes

## Advisory

### Tax and Legal Advisory

Tax, in particular, has become a much more important issue for family offices in recent years and as such has assumed a more important part of the functions of a family office. Legal matters are also important. A family office will typically employ a general counsel and/or a chartered or certified accountant, or several accountants and tax experts. These professionals usually provide the following services:

- Construct a tax plan that best suits the family
- Design investment and estate planning strategies that take into account both investment and non-investment income sources and their tax implications
- Ensure all parts of the family office are tax compliant Compliance and regulatory assistance Family offices need to ensure strict compliance with regulations pertaining to investments, assets and business operations. These services will include:
  - Providing auditing services for internal issues
  - Establishing a corporate governance mechanism
  - Ensuring a high level of staff hiring
  - Group performance monitoring and compliance
  - Offering recommendations on independent and board advisory formation
  - Strengthening the regulatory investment process

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### **Risk management and Insurance Services**

This is a service that has assumed a more important role in recent years because of the financial crisis of 2008–09 and the subsequent fallout. It will be a crucial service for family offices in the future as well.

These services will include:

- Risk analysis, measurement and reporting
- Assessment of insurance requirements, policy acquisition and monitoring
- Evaluation of existing policies and titling of assets
- Evaluation of security options for clients and property
- Formulation of disaster recovery options and plans
- Protection of assets, which could involve the use of offshore accounts
- Development of strategies to ensure hedging of concentrated investment positions
- Physical security of the family • Data security and confidentiality
- Review of social media policy and development of reputation management strategy

### *References:*

*Abbott Downing - Family Governance  
Family Governance Powerpoint  
66356543-Family-Governance  
406327160-EY Family Office Guide*

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