



The Four-Room Model of Governance for Family Offices

Carol A. Hannigan

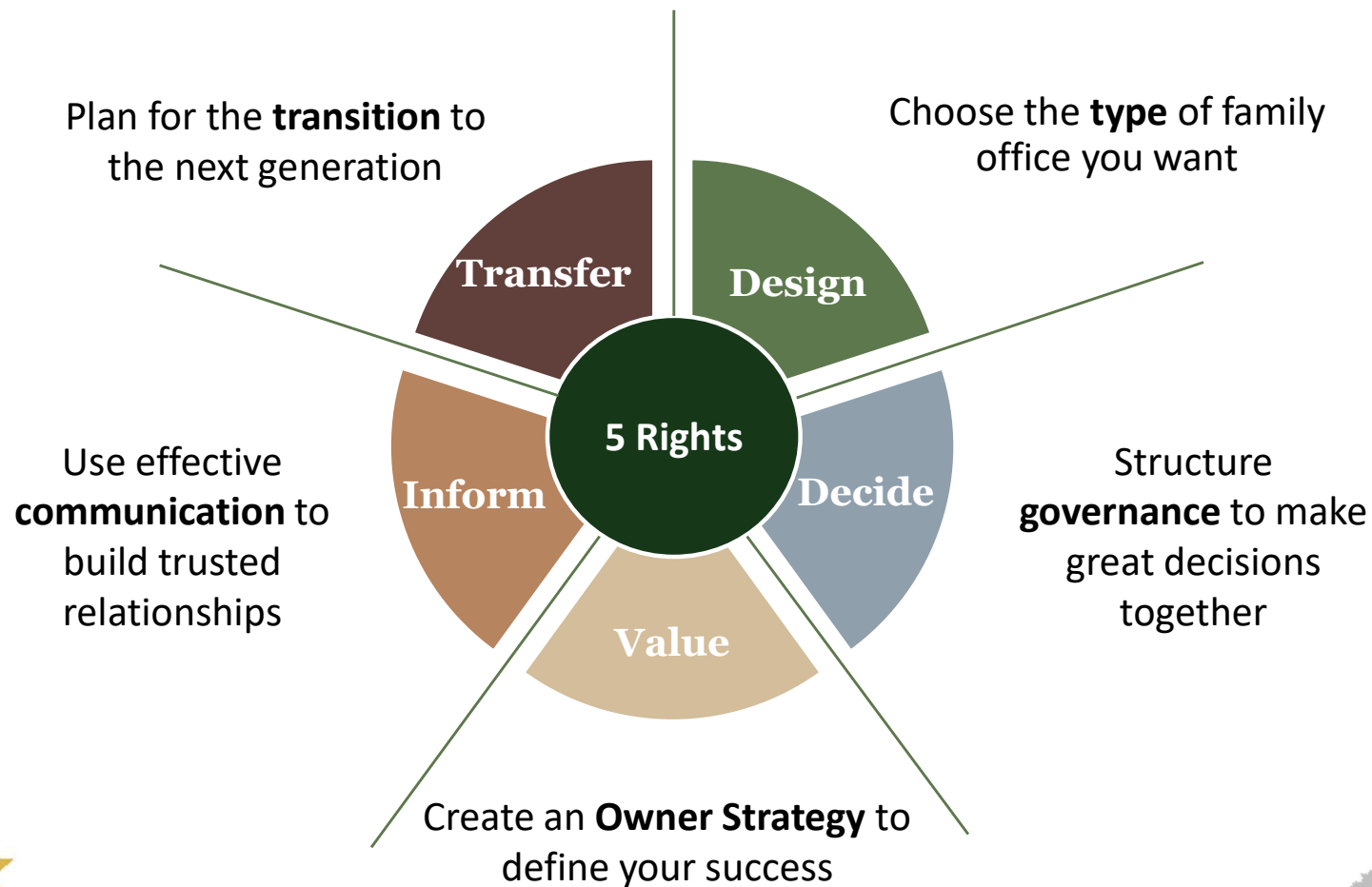
Banyan Global Family
Business Advisors

October 4, 2023

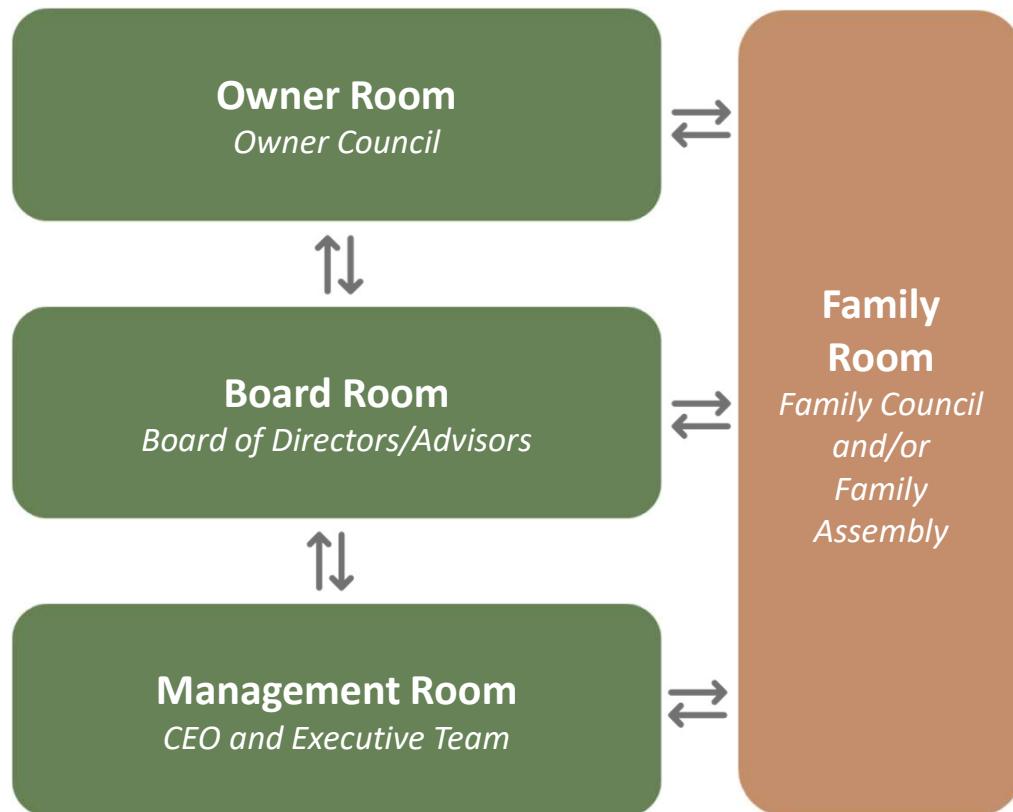


Family Office Exchange

The 5 Rights of Family Office Ownership



We use the Four Room model of governance to guide decision-making in family offices

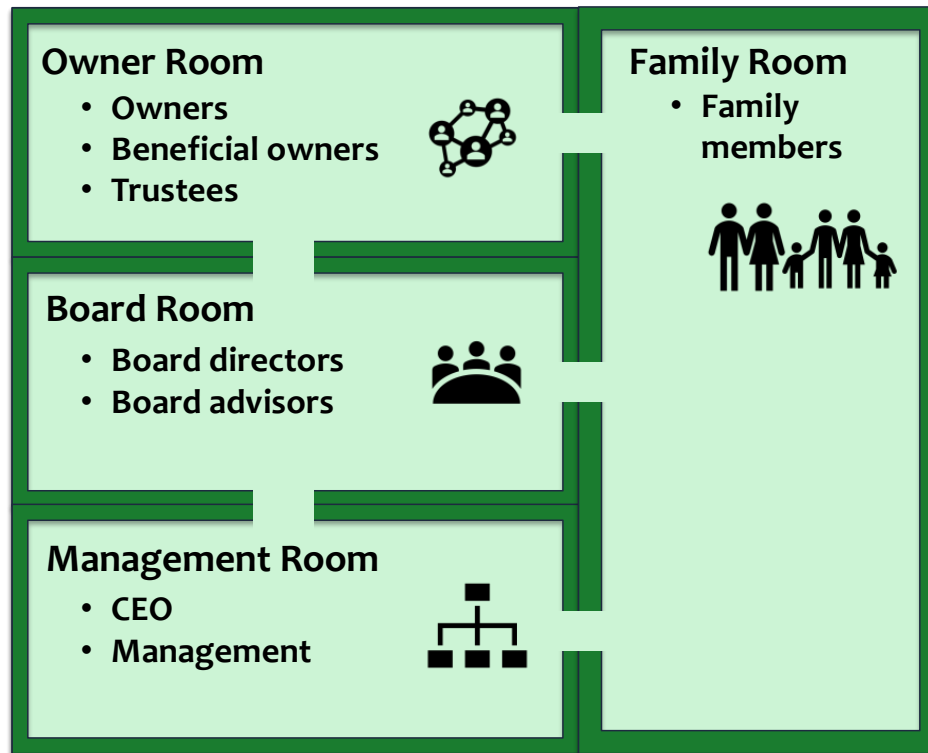


Effective forums for doing work in each of the rooms

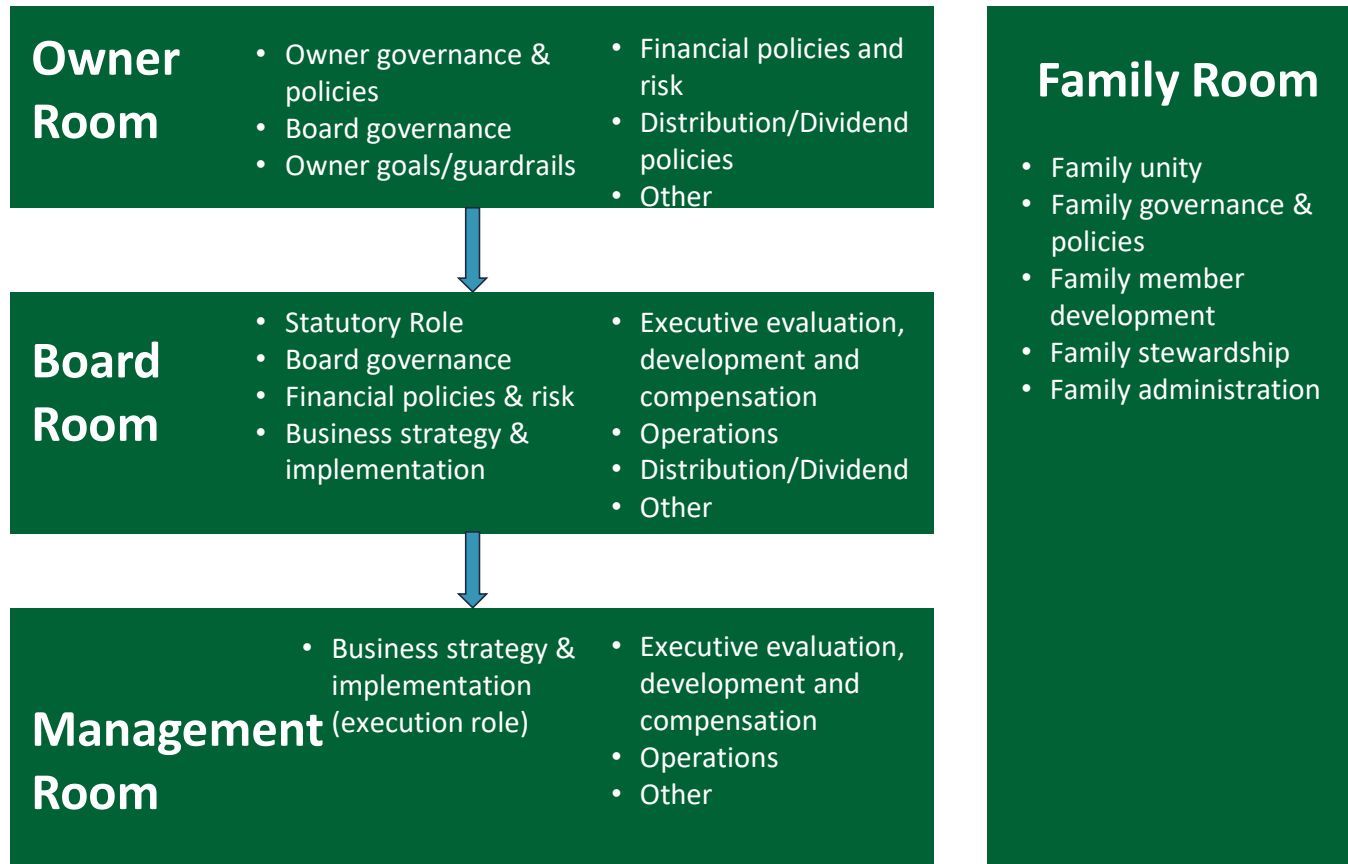
Clarity of roles, decision rights, and communication across the rooms

Well-developed policies to deal with potential sources of conflict within/across the rooms (“hot spots”)

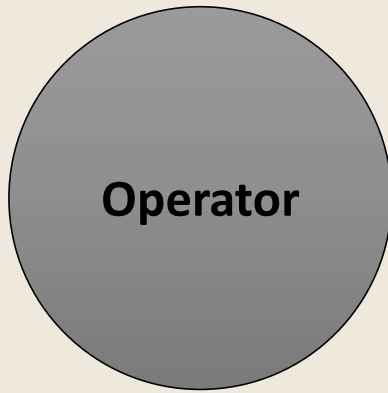
Participants in the Four-Room Model



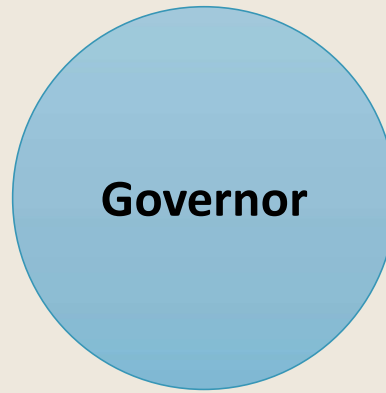
The Four-Room model, with principal activity groupings



Categorizing roles of owners of family offices



Works in the family office, often in leadership role



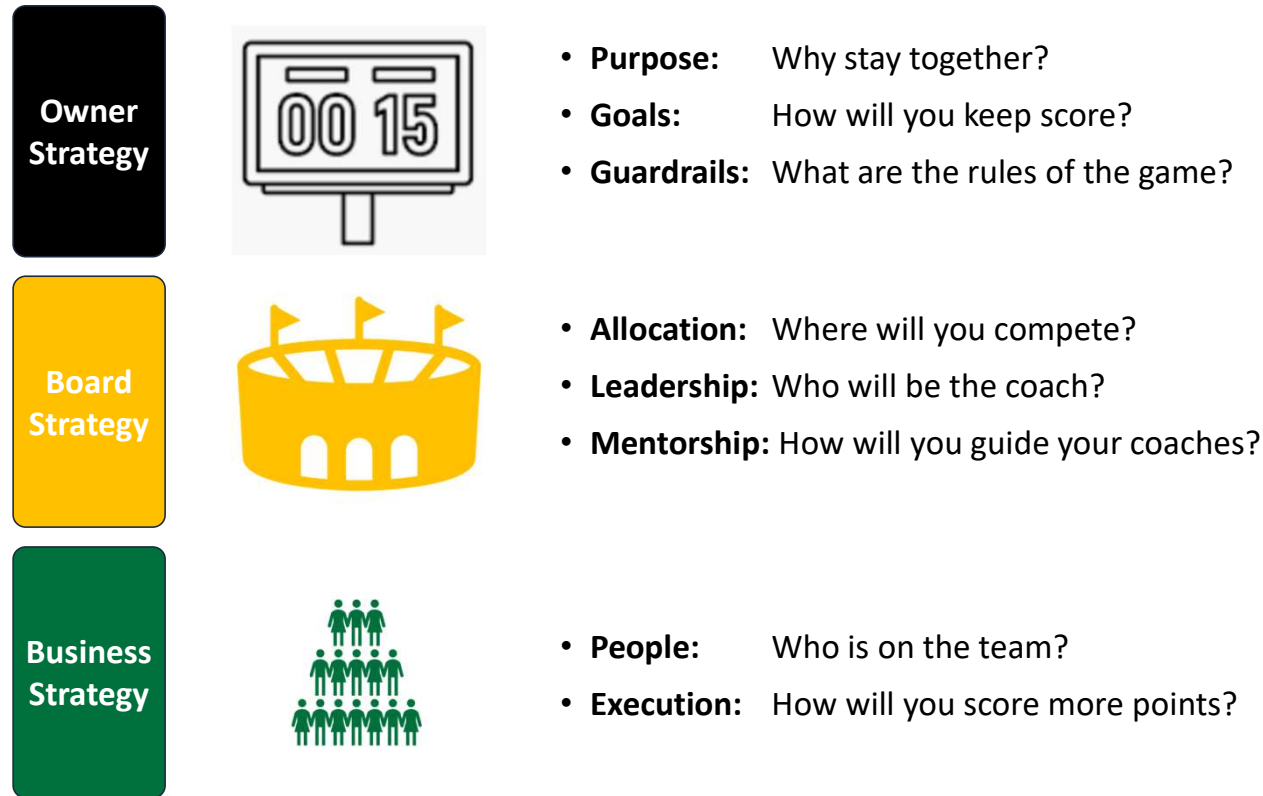
Participates in owner/ board decisions



Limited role in decision-making

- Tendency to see as evolution from left to right, but it doesn't have to be
- There is value in each category – importance of mutual respect
- Can have all the same category or a combination of them

The three levels of strategy in family offices



Important note:

An owner strategy *does not* tell executives and boards how to run the business

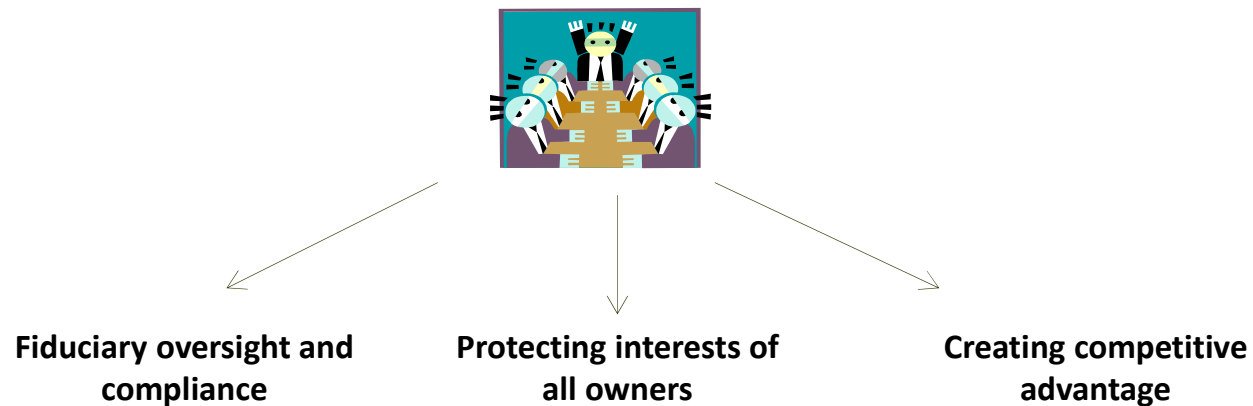
Instead, it *empowers* leaders to develop and execute strategies that:

- Align with your **purpose**
- Accomplish your **goals**
- Sit within your **guardrails**

Strategies must be developed at each level
Each level is integrated with others and critical to overall success
As families evolve, levels become more distinct from each other

Why Boards?

Three primary functions of the Boards – no single individual can fulfill all three



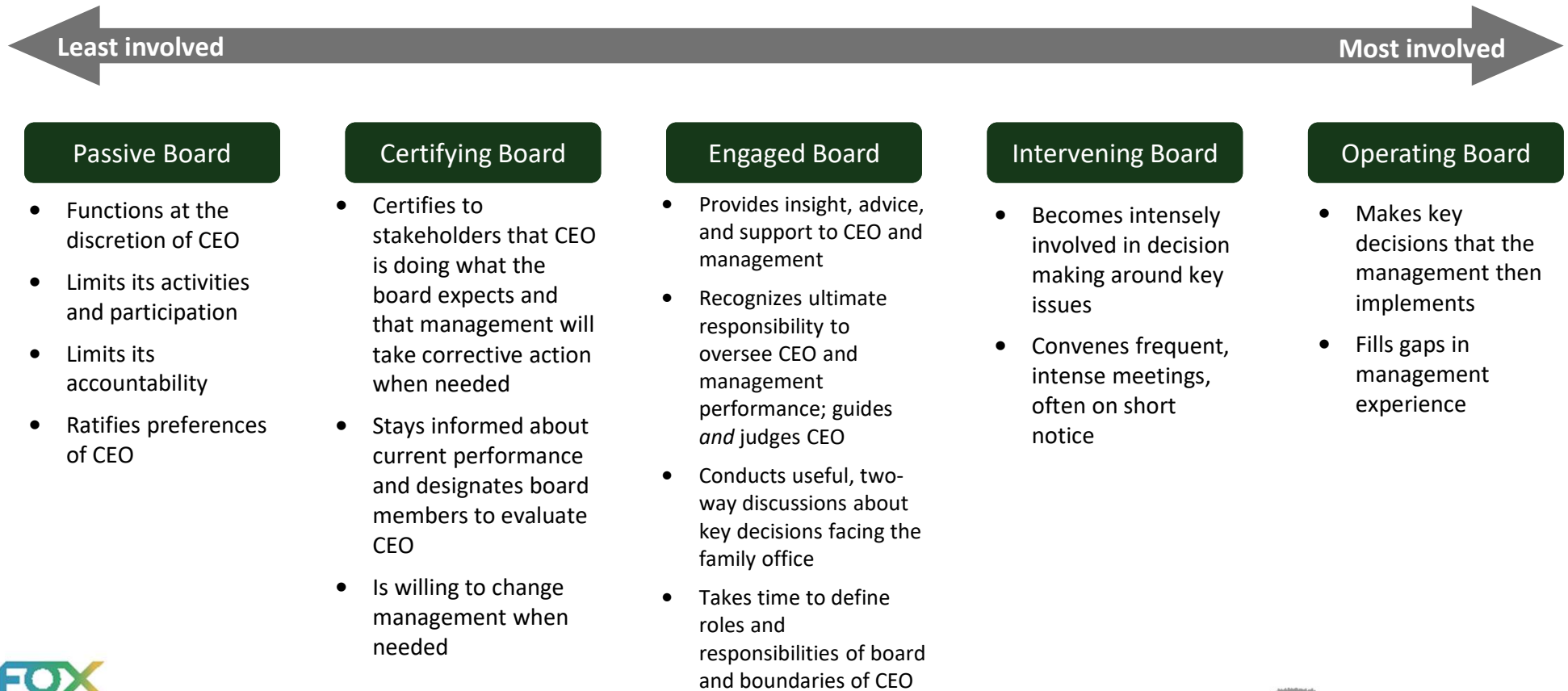
- Importance of the Boards increases as the assets managed and services provided become more complex
- Importance of the Boards increases as the competitive environment becomes more dynamic (e.g., MFO's as an alternative)
- Importance of the Boards increases as the ownership moves from Controlling Owner to Sibling Partnership and Council

Consortium stages

Boards can take several different forms

	Informal Advisory Board	Formal Advisory Board	Formal Board of Directors	Hybrid Formal Board/Advisory Board
Description:	<ul style="list-style-type: none"> • Group of advisors that do not meet regularly • Provide informal advice to company executives and owners 	<ul style="list-style-type: none"> • Team of advisors that meet regularly • Provide professional advice to shareholders, CEO and executive committee 	<ul style="list-style-type: none"> • Formal group of directors • Empowered to make key decisions about the family office 	<ul style="list-style-type: none"> • Core board of directors with additional informal advisors • Core group is empowered to make key decisions
Legal Authority:	<ul style="list-style-type: none"> • No legal authority 	<ul style="list-style-type: none"> • No legal authority 	<ul style="list-style-type: none"> • Authority governed and protected by law 	<ul style="list-style-type: none"> • Core group has legal authority, advisors do not
Pros:	<ul style="list-style-type: none"> • Easy to implement • Flexible • Limited liability 	<ul style="list-style-type: none"> • Flexible • Limited liability • Structured advice • Institutional memory 	<ul style="list-style-type: none"> • Institutional memory • Makes tough decisions • Transitions well 	<ul style="list-style-type: none"> • Mix of pros from the formal advisory board and full board

Boards can play different roles depending on the level of their engagement



Key components of a Board charter (I)

Topic	Questions to address
1. Board Operations	
Mandate	What is the role of the Board?
Chairman and Director responsibilities	What are the responsibilities and decision-making rights of the Chairman and Directors?
Board meeting agenda and schedule	How often will the Board meet? Who will set the meeting agenda?
Board member compensation	What will the compensation be for employee and independent directors?
Director orientation	Who will organize education for incoming directors and what topics will be covered?
Director evaluation	How often will director performance be evaluated? Who will be responsible for administering performance evaluations?



Key components of a Board charter (II)

Topic	Questions to address
2. Board Structure	
Board size	How many members will serve on the Board?
Board selection process	How will family and independent directors be selected?
Director qualification	What are the necessary qualifications of directors?
Term limits	How long will directors be allowed to serve on the Board?
Director retirement	What is the retirement age of family and independent directors?
Board committees	What committees will the Board have?



Decision Authority Matrix (DAM): Overview

- As families and the family office evolve and structures change, decision authority can become unclear
- DAMs clarify and foster better decision-making by defining:
 - Who has the final say for a decision?
 - Who has what role in each type of decision?
 - What interaction is required for different decisions?
- Frameworks like RAPID (*see right*), describe who should do what for each complex decision that needs to be made
- Explicit discussion of decision authority is critical to the effective functioning of a complex family enterprise
- To build a DAM, create a matrix of key decisions (rows) and key stakeholders (columns) and assign a role as needed to each decision.



The RAPID Framework

The letters in RAPID stand for the roles of key people in any decision

R: **Recommend** a decision or action

A: Formally **agree (approve)** a recommendation – Must be consulted, should not be ignored (veto power)

P: Be accountable for **performing** a decision once made

I: Provide **input** to a recommendation – Must be consulted, may be ignored

D: **Decide;** Make final decision “commit the organization to action”

Successful use of RAPID framework

Needs to be discussed and agreed upon across all the entities

Each DAM will look different

Only one entity should have the D. If two or more people think they're in charge of a particular decision, a tug-of-war results

Watch for a proliferation of A's. Too many people with veto power can paralyze recommenders. If many people must agree, you probably haven't pushed decisions down far enough in your organization

Avoid assigning too many I's. When many people give input, at least some of them aren't making meaningful contributions



Carol Hannigan



Carol Hannigan
channigan@banyan.global
617-257-5888

Carol Hannigan, a Principal at BanyanGlobal, is an attorney and former single-family office executive with more than 25 years of legal and wealth management experience. She specializes in helping family business owners create a roadmap to understand and use their corporate governance and trust and estate planning and administration to achieve their business and family goals.

Prior to joining Banyan, Carol was President and General Counsel of Moreland Wealth Services Corporation, a multi-generation single-family office, serving as a key senior advisor on planning and executing wealth management strategies for all family members and their private trust company board. Before joining Moreland in 2010, Carol was an attorney advising family business owners, investors, developers and fund managers on a broad range of complex matters involving real estate and private equity investments, tax, trust and estate planning, including as a Partner at Hale and Dorr LLP (now Wilmer Hale). Carol received her B.A. from Simmons College and her J.D. from Boston University School of Law.

Carol enjoys advising and empowering family business owners to manage conflict and become effective stewards of their business and human capital. She is passionate about using trust administration, governance, succession planning and next generation education to sustain family enterprises for current and future generations. “I understand the perspectives of both the senior and next-generation family owners, to help them find alignment on shared goals and manage through the inevitable conflicts as they plan and prepare for succession in their family enterprise.” She shares “best practices” with clients and colleagues and has spoken on the topic of “Creating a Sustainable, Multi-Generation Family Office” at the Institute for Family Governance.

Carol lives on the North Shore in Massachusetts, where she enjoys sailing and skiing with her husband and two sons.



Family Office Exchange

