

# Family governance

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“We can’t even agree on a movie to see together, much less make financial decisions as a group!” exclaimed a family matriarch recently, when the topic of multi-generational family wealth governance was broached. “Is it really done? Do the words ‘family’ and ‘governance’ truly belong in the same phrase?”

These are not unfamiliar sentiments. Many families are about as excited about setting up a family governance system as they are about visiting the dentist. And, truth be told, the need for family governance is in some ways similar to the need for dentistry: to help maintain, preserve and enhance various assets, hopefully for the long haul, and to counter-balance the corrosive effects of the normal wear and tear of everyday life.

When young and small, not much intervention is typically necessary, either for family assets or teeth. As they grow, multiply and mature, some structured attention is necessary in order to ensure the health and growth of the next-generation. We all know from childhood on that healthy dental habits (regular brushing and flossing plus periodic meetings with the dentist and oral hygienist) promote dental health and sustenance. Such healthy habits are akin to savvy families’ regular practices of communicating, sharing information, coming to agreements, making decisions around the purposes and possible uses of their wealth and meeting with experienced advisors and planners to help guide them. These practices are critical to supporting family health and growth.

During the past decade, it has become almost common knowledge that setting up good systems of governance for family wealth management may be one of the key components of long-term success. Indeed, without well-designed, flexible-but-durable governance processes, the transfer of family wealth is likely to be 70 percent unsustainable across generations.<sup>1</sup> Families taking the longer view recognize the power of collaborative guidance systems and of clarifying the purposes and promise of their shared wealth. These families set themselves up to beat the statistical odds and outlive the proverbial “shirtsleeves to shirtsleeves in three generations.”<sup>2</sup> These successful multi-generational family enterprises turn the complexity of their shared assets into an opportunity for growth on many levels.

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<sup>1</sup> Roy Williams and Vic Pressler (2003), *Preparing Heirs*.

<sup>2</sup> James Hughes (1997), *Family Wealth: Keeping it in the Family*.

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### **What is governance?**

The various definitions for “governance,” whether referring to civic governments, business management teams, school administrations, or community projects, can be boiled down to this: the processes and systems that define expectations for, grant individuals the power to, and verify the performance of those put in charge. Family governance can be seen easily in light of the World Bank’s definition of governance: “the manner in which power is exercised in the management of a country’s economic and social resources for development.”<sup>3</sup> Creating a family governance system, then, can help families clarify how decision-making is to be handled for the family enterprise, by whom and why, and what steps can be taken in the future to adapt to changing circumstances while holding the center together for the good of all.

### **Who needs governance?**

The truth is, *every business and, yes, each family entity has some system of governance*. It may be informal in a family, and not patently clear to all involved, but it does exist, for good or for ill. At the beginning of a project, start-up or family enterprise, governance systems and processes are relatively simple: the owner/leader/couple makes decisions about the allocation of resources, identifies problems and works to solve them, and interfaces with the outside world. As the enterprise or family grows in size and complexity, governance systems too become increasingly complex so as to meet the multiplying needs of the family and its interests, and in order to be proactive in seizing opportunities as they arise. It can become increasingly difficult for one person or couple to hold all the keys, carry all the knowledge or make all the decisions if the family hopes to beat the odds of sustainability. A conscious family governance system can help create an efficient and rewarding means of ensuring the family enterprise’s viability for generations to come. Therefore, any family enterprise that seeks to maintain and grow its wealth — financial, human, social and intellectual — in the near and, especially, distant future should consider creating a clear system of governance.

### **When might families need to clarify governance?**

In truth, it is helpful to clarify one’s system of governance whenever one is considering best ways to manage increasingly complex holdings. When a couple decides to become partners for life, they reduce the likelihood of future frictions by discussing and agreeing upon means of sharing assets and making future financial decisions together. As children and, eventually, grand-children are added to the mix, the need for increasing clarity around governance becomes evident as plans are drawn up for estates and trusts and other assets. As business entities are created, divested, purchased and sold,

complexities abound. And as families share in these enterprises together, the possibility of confusing family relationship issues with business enterprise issues may grow exponentially if clear systems of governance are not in place.

So, when is it a good time to focus on governance? Our answer is: from the very beginning, as things change, and as one plans for the future of any family enterprise. Once a coherent system of governance is instituted, families may benefit from opportunities for developing deeper bonds of affiliation and appreciation, family harmony and cohesion, shared learning experiences and pride in mutual ownership and success. Creating the right governance system for your family requires concerted effort and a significant investment of time. That time, however, may be time very well spent.

### **How do families set up a governance system?**

We believe the best way to establish a supportive governance system is to begin by holding a series of family meetings during which the family becomes familiar with the various entities held and managed in common (its “family enterprise”) and discusses ways and means to safeguard their well-being, along with the well-being of the family itself, for the future.

Families starting the governance-creation process also typically spend time together developing awareness of their legacy and vision. They discuss their individual and shared dreams and values, and deepen their knowledge of the legacy and history of those who came before and whose contributions are still felt in the current generations. Families, in these meetings (or “assemblies” or “retreats”), will often craft statements together such as:

- Family history
  - This can be a written document, with photos, or a video, etc., or can be a series of family stories shared orally
- Statements of shared family values and vision
  - Utilizing values clarification assessments and discussions
- Family mission statement
  - What the family is all about; its purposes, or guiding principles
  - From this, wealth mission and vision statements are often crafted
- Family council agreements
  - Who, when, and what for? (rule of thumb: councils become important as representative governing bodies when entire-family meetings can no longer do all the work needed, often when families grow into 2nd or 3rd generation leadership, involving siblings and possibly cousins in decision-making)

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We can help you set up a healthy, organic, unique family governance system that attends to the current and future needs of your family's enterprises.

- Family Constitution
  - This document typically grows and is amended over time. (family "constitution" is variously known as a "family strategic plan," "family rules & policies," or the "family creed," and is basically a statement of the principles that undergird the core values, vision, and mission of the family and its enterprises, as well as a clarification of the roles and responsibilities, powers and accountabilities of the key governance positions within the enterprise. It is a living, evolving document that needs to be updated regularly in order to reflect changes in the family and/or its enterprises)

### How we may assist you

At Ascent Private Capital Management of U.S. Bank, we have the well-being of the whole family in mind as we assist you in wealth sustainability for your family. We can help you set up a healthy, organic, unique family governance system that attends to the current and future needs of your family's enterprises. Ultimately, the governance system that best fits your family enterprise will be your own creation. Our role is to facilitate conversations leading to the discovery of ways and means that best serve for the likelihood of your ongoing success, and to help you bring these to fruition.

When families engage in common pursuits — be they businesses or charitable foundations, managing assets together, running a family office, or pursuing common philanthropic passions — the potential of ongoing success is greatly enhanced by a robust family governance system. Family governance need not be an **oxymoron**. We believe the thoughtful, deliberate construction and implementation of a family governance system constitutes an **opportunity** to set the foundations for the flourishing of succeeding generations.

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