

FAMILY GOVERNANCE

FACT SHEET

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An introduction to Family Governance

Family governance is designed to promote fairness within a family and provides a structure for family cohesion and stability both for the present and the future. The family governance planning process involves the formulation of an agreed set of rules and guidelines, usually in a document known as a Family Charter or Family Constitution.

Why implement family governance?

A major reason is to try and avoid conflict within families, which can rapidly erode family wealth. By agreeing a set of family governance rules, unnecessary friction can hopefully be avoided and family cohesion, growth and future business success are enhanced. Family governance provides a mechanism for family decision-making, promotes agreement and family harmony and, where disputes do arise, provides a mechanism for discussion and resolution.

Promotion of good family governance is now recognised as best practice by professional advisers to wealthy business owning families. A parallel can be drawn with corporate governance, where companies implement best practice principles in order to help safeguard corporate wealth.

If possible, it is best to establish family governance measures whilst a family group is still relatively small. Setting out guiding principles early, especially with the input of the family patriarch or wealth creator, will yield greater benefits for future generations. Doing it later means the family is likely to be larger and more diffuse.

How is family governance implemented?

Family governance rules must be self-created by each specific family, as they must be tailor made to reflect a family's particular circumstances. Ideally, the process should have the support of all principal family members, as imposition of top down plans by one family member can often meet with resistance. Where a family business is central to the family's asset base, selecting who will run that business is often a key issue, and usually necessitates direct engagement with the next generation.

Common issues include:

- The succession to the patriarch as head of the family's wealth/business. A process for orderly succession is essential, particularly where there are several suitable candidates for this role.
- Issues will often arise in respect of non-lineal family members such as spouses and step-children, as well as questions of equality between siblings, issues surrounding involvement in the business and those arising from use or ownership of non-business assets.
- Who is a family member for the purposes of the family governance process?
- It is common to include only lineal descendants of the patriarch as principal family members, but this can be adapted as necessary.
- Other family members such as spouses, step-children and more distant relatives can be included for specific aspects.
- Should children be included as family members, or only formally consulted on reaching their majority, or some other designated age? If there is a desire to educate children in the family business, history or culture, consideration should be given as to how this should be done.
- The role of spouses in the process should be specifically considered – should they be fully, or just selectively involved?

Practical steps to create a family governance plan

- The first step is general consultation within the family to assess the desire for carrying out this planning exercise. Opus Private's expert family governance advisers can meet family members at the outset to help draw out what should be the key objectives.
- For the process to produce the desired outcome, it is essential to understand the family's specific issues, to include empathy with the family's history, current circumstances and likely future needs. The implementation of the process itself will typically bring out further issues that require more thought and resolution.
- The process should normally start with the patriarch's view of the family and his hopes for its future - the family dynamics and personalities, individual and collective strengths and weaknesses and what the patriarch's expectations and hopes are. Then, similar discussions should take place with other family members.
- Because of the intimate nature of some of these discussions, and especially if a Family Constitution is to be prepared, families usually find it preferable to work with independent advisers such as ourselves. We have wide experience in this area and can help draw out and resolve specific family governance issues.
- One on one meetings are held to understand the role of each family member, their aspirations, and the issues they believe to be important.
- We then give feedback to the family, followed by further meetings with the patriarch and other family members as required.
- Rules can be laid down for regular family meetings at a "Family Council", for the discussion of particular issues that concern the family. Some issues may be capable of being delegated to smaller groups of family members for discussion and resolution.
- Where the family unit is small, it could be sufficient to do no more than this - i.e. have an agreed mechanism for regular meetings of a Family Council - however, a patriarch will often want to put his stamp on family governance plans and procedures for the future, in which case a Family Constitution should be created.

The Family Constitution might cover the following aspects:

- o A statement setting out the general purpose of the document - 'it is the patriarch's wish, with the support of all current family members, to promote family harmony and to provide a mechanism for the avoidance of family conflict, thereby helping to safeguard the family's wealth and well being - further it is the wish of all current family members that future family members should adhere to these rules and guidelines'.
- o The structure of the Family Council as the family's decision-making authority - who should be included and how voting will operate.
- o Proposals for creation of and liaison with any advisory boards or other related family entities, e.g. a family office, family trusts or charitable bodies.

- o A statement acknowledging the fundamental individual rights of family members that are not to be infringed.
- o Procedures for family members to raise issues or make complaints.
- o Methods of determining what should happen in the event of non-compliance.
- o Conditions for employment in the family business, procedures for selecting management, restrictions on transfers of share holdings in the family business.
- o General principles, such as commitment to certain ethical, cultural or religious principles, or provision for salaries or gifts.
- o Method for the Constitution to be amended.

The family itself will often raise other particular issues that are important to them and these can also be included in the Constitution.

Regular family meetings can be called on a periodic basis and in addition to business and financial updates, could cover other areas:

- Update on personal events
- Teaching sessions on business, accounts, investments, legal
- Any charitable giving
- Additions to and reminders of family histories, stories and biographies
- Recreational activities to further promote family cohesion and sense of group identity

Costs

A family governance planning exercise can be costed on a time-spent basis. Alternatively, a fixed fee may be negotiated if appropriate. Further details are available on request.

Contact

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