

**TIES THAT BIND:**

# **HOW SOUND GOVERNANCE SUPPORTS FAMILY SUCCESS**

*An Introduction to Family Governance*



How does your family make decisions about wealth? Since every family is different, there's no "right" way. But there's a common thread among families that successfully deploy their wealth to reinforce a shared purpose and vision—strong governance.

Governance establishes a sense of meaning for all family members by creating a transparent structure that addresses both the opportunities and challenges of wealth. The benefits? Family cohesion—especially in multigenerational families with young members—and individual empowerment that lead to the productive use of assets.

In this paper, we review the role of governance and its use in harnessing opportunities, discuss tools to establish an effective family system, and share practices that successful families employ to build an enduring legacy.

## HOW COMPLEX IS YOUR FAMILY?

Every family structure is unique and falls on a continuum of complexity (**Display 1**). A family's unique composition, level of wealth, and purpose often dictate the formality of its governance structure. For some with less complicated needs, a yearly retreat might satisfy governance and communication needs. Other families with more complex circumstances—such as those running businesses, managing family trusts, and overseeing charitable foundations—might require more frequent meetings and prescribed structures.

## WHAT IS FAMILY GOVERNANCE?

Family governance is a framework for communication and decision-making among its members. It provides a roadmap to organize a multi-branch, multigenerational family, and is implemented through various documents and systems that guide wealth transitions, along with the wealth creators' knowledge and values.

### EXECUTIVE SUMMARY:

- Governance is a framework for communication and family-focused decision-making.
- Identifying shared values and a common purpose helps align family members on the successful stewardship and management of wealth.
- While a family's unique composition, level of wealth, and purpose will determine which governance structures are used, all families can benefit from some aspect of governance.
- Creating a proactive and adaptable system increases the likelihood of preserving and passing wealth to future generations.

### DISPLAY 1: LEVEL OF COMPLEXITY DRIVES GOVERNANCE

#### LESS COMPLEX

- Fewer generations
- New structure
- Liquid wealth
- Independent decision-making
- Individual philanthropy

#### MORE COMPLEX

- Multiple generations
- Legacy structures
- Operating business(es)
- Collaborative decision-making
- Family philanthropy

## THE ROLE OF FAMILY GOVERNANCE

Each family's governance structure is unique. In theory, there could be as many different versions of family governance as there are families. But at a high level, every family should strive to create a distinct model that evolves with the family's needs. The structure should promote alignment while providing a forum that:

- sets the vision for wealth that supports the family's purpose;
- identifies and maintains the values that drive decision-making;
- creates a healthy environment for clear communication and collaboration;
- establishes roles and responsibilities;
- celebrates individual and family milestones;
- proposes conflict resolution strategies; and
- transfers wealth efficiently and effectively through generations.

### Setting a Vision Reinforces Intention

At its core, governance is about family-focused decision-making. It starts with setting a vision and defining a purpose, then deciding how wealth supports these intentions. Together, these steps will keep the family aligned and direct the use, growth, and sharing of assets while preventing unintended erosion.

### Identifying Values Is Critical

The process of building an effective governance structure begins with a set of family values (**Display 2**). Most of us rely on actions speaking louder than words, so it can be difficult to express something that's such an integral part of ourselves. Because of this, Bernstein uses guided exercises to uncover what matters the most—and the least—to the families with whom we work.



## UNCOVERING VALUES

Two sisters who believed they held opposite beliefs were charged with taking over a family foundation previously run by their parents. Hoping for a smooth transition, their parents asked their Bernstein advisor to lead an exercise to promote effective decision-making and connect their children to a philanthropic purpose.

Bernstein led the siblings through a values exercise to define their charitable priorities. During the process, the siblings selected distinct words that reflected their values. As each sibling articulated why she chose a given value and how she expressed each belief, a consistent theme emerged. While using different words to capture it, sustainability and environmental conservation ranked high on both their agendas. Identifying this newfound synergy opened the door to a meaningful discussion, ultimately aligning the sisters on the foundation's new mission—giving to organizations focused on climate change. This approach worked because the parents were flexible and open to their children's charitable tenets; it enabled the sisters to update the foundation's mission statement and ultimately find their connected philanthropic purpose.

Pinpointing these values enables families to appreciate unifying tenets while respecting distinct differences. Often, we find shared ideals hidden beneath the surface.

Communicating ideals remains vital to establishing common ground, but it can also reveal disparities. Your loved ones may not equally prize beliefs that you hold dear. But that doesn't make your values less important. Discussing differences is essential to understanding and validating varying viewpoints. For example, children may value *freedom* but know their parents have a strong affinity for *faith*. It can be tempting to edit values to avoid perceived conflict, but a contrast in values doesn't simply disappear. Sound family governance relies on the assurance of both open and spoken minds, especially when connecting across generations.

## Communication Is the Heart of the Family

The importance of communication goes beyond articulating values. Governance provides a forum for voices to be heard while offering strategies for working together and building trust. These interactions take the form of informal conversations—like the ones shared around the dinner table—and formal meetings. Together, they pave the way for deeper connections and the avoidance of misunderstandings. They also create opportunities for storytelling about the past and planning for the future—fostering productive dialogue between current and future family leaders.

## Establishing Roles and Responsibilities

Most wealth creators spend a significant amount of time building their wealth and want their heirs to become good stewards of it. Effective decision-making is key to successful stewardship, but a governance system needs to be established early on to solve potential issues that may arise. Waiting until a consequential event—such as the death of a family member or sale of the family's business—can be detrimental to the family's legacy. Designating roles and responsibilities within the family remains essential to produce effective decisions and understand how the family operates and communicates before facing a pivotal event.

Establishing a family governance system helps engage, empower, and activate each member's different strengths and capabilities (**Display 3**). But for it to be successful, everyone, including younger generations, should partake in its design and implementation. Buy-in from all members enhances emotional investment and unity.

### DISPLAY 3: PREPARING THE NEXT GENERATION

#### Common Objectives:

- Build business ownership skills and competencies
- Teach family business principles and practices
- Gain knowledge of family business assets
- Understand family history and values
- Develop personal leadership competencies

#### This can be achieved through the following:



Each family member's contribution provides a sense of accomplishment, fostering alignment across age groups. Every member can also take comfort knowing that the system hears disparate perspectives and recognizes and helps fulfill both individual and family goals.

Education represents another crucial component when developing future generations. As families grow in size and complexity, designing a program that grooms inheritors to become future leaders remains vital.

## Celebrations Uplift Family

Governance is not just about the dotting the I's and crossing the T's. Cohesiveness is an essential goal, too. Celebrating milestones—birthdays, anniversaries, and the arrival of new family members—builds connections and acknowledges triumphs over challenges. It's a way to show family members that they matter and that their lives have meaning. Stronger relationships encourage family unity, which leads to more successful governance.

## Resolving Conflict

While families are not immune to disagreements, one of the goals of governance is to align wealth with purpose—a collective vision subscribed to by the family. It provides a decision-making framework that organizes the family and conveys expectations for managing, sharing, using, and preserving wealth for the future. This helps families make decisions that are agreed upon and respected over time, minimizing conflict.

Though families cannot entirely avoid conflict, those that lack an established decision-making framework may not be prepared to handle disputes. An effective system will reduce the chance that a disruptive disagreement will arise.

To help circumvent conflicts, we recommend:

- a written process to ensure decisions are fair and transparent, which can reduce challenges;
- documentation of discussions and decisions, with the rationale for each—clear records lessen the potential for misunderstandings or inaccurate recollections; and
- exit options, especially for wealth tied up in family businesses—members should be allowed to choose, rather than feel forced, to share assets.

### Transferring Wealth Requires Structure

Effective wealth transfer represents a key component of governance. It entails various legal documents and structures—trusts, contracts, prenuptial agreements, and business entities—that execute the family’s plan of moving assets between generations or to charity. While the documents and structures outline ownership, investment management, and spending decisions, the framework also guides and promotes continuity among generations with multiple entities. When a greater level of complexity exists, it takes pronounced intentionality and technical rigor to navigate decisions.

## EFFECTIVE FAMILY GOVERNANCE TOOLS

Each family should develop and refine a system that can expand and change over time. While there are no set rules for family governance structures, several components have become standard: a mission statement, family assembly, family council, and a family constitution (**Display 4**).

### Mission Statement

Establishing a governance system starts with crafting a family mission statement that aims to state the family’s purpose, express shared goals, and identify common values. While a defined group should initiate and guide the process, every willing family member should have a say in its creation. A well-formulated statement will serve as a long-standing guide.

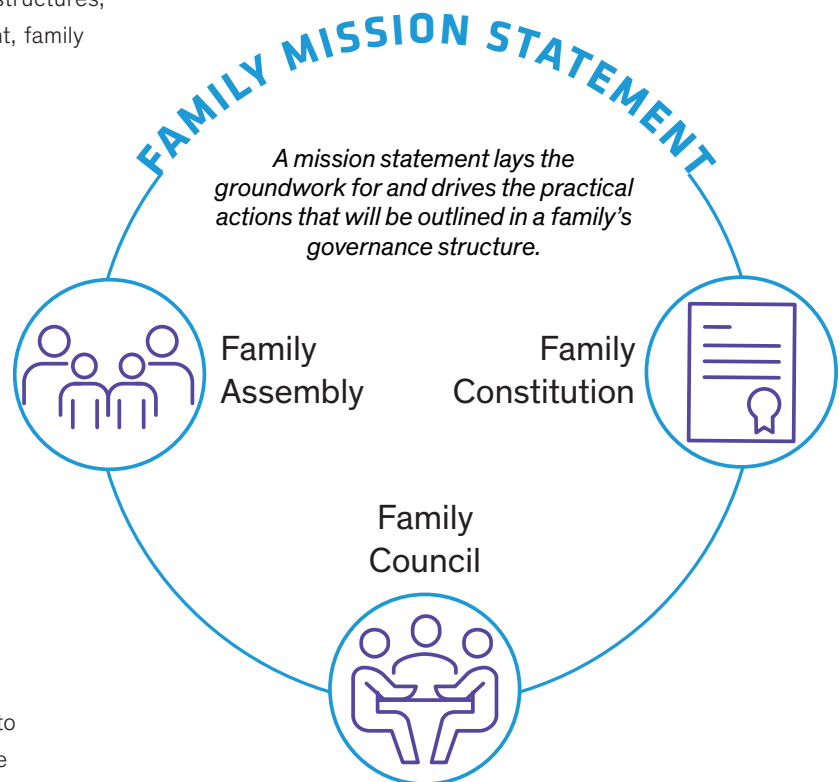
The family mission statement is designed to:

- create and communicate a shared vision, values, and purpose;
- bond family members;
- guide parenting decisions;
- articulate the standards by which each member should live by and be held accountable; and
- provide a sense of meaning and identity.

Drafting a mission statement provides an opportunity for members to share their vision for the family. Often it provides a chance to engage and educate prospective heirs who may not have been a part of planning or decision-making conversations.

A mission statement lays the groundwork for and drives the practical actions outlined in the rest of the governance structure. Additionally, it informs and directs trusted advisors (e.g., investment, legal, trust, and tax) as they advise on growing and preserving wealth for future generations.

**DISPLAY 4: THE MAIN COMPONENTS OF FAMILY GOVERNANCE**



“A family mission statement is a combined, unified expression of what your family is all about—what it is you really want to do and be—and the principles you choose to govern your family life.”

—Stephen Covey, Author, Educator, Businessman<sup>1</sup>

1. Covey, Stephen. (1997). *The 7 Habits of Highly Effective Families: Building a Beautiful Family Culture in a Turbulent World*. St. Martin's Press.

## Family Assembly

Typically, a family assembly is part of governance. This regular gathering of all adult members, their spouses, and children over a certain age sometimes takes the form of a retreat, with fun family activities, education, and business discussions (if applicable). It usually lasts one or two days, providing an annual or semiannual forum to explore issues and events while promoting cohesion—especially among those who see each other infrequently. The gatherings also offer an opportunity to identify members who may be interested in taking on a more significant future role.

The core purpose of the assembly is to keep the family informed and create bonds to help preserve wealth, particularly as a family grows. More specifically, the assembly:

- teaches and disseminates the family history;
- provides education opportunities;
- reviews estate planning structures (trusts, etc.);
- promotes philanthropic activities;
- investigates other important matters;
- creates opportunities for social interaction; and
- welcomes new members (new spouses).

Unique agendas accompany each assembly. Circulating the agenda prior to gathering to solicit feedback from the family helps members feel like their voices are heard. Some may place high importance on financial literacy, covering both capital markets and investments (reading financial statements, current economic conditions, investments, etc.). Families commonly bring in a third party to lead these sessions.

Most assemblies strongly emphasize building connections. Group dinners, sporting events and competitions, and other team building activities can deepen relationships and solidify the family unit.

The size of the family or its business dictates the frequency of the gathering. It may be sufficient to have a short, informal meeting that evolves to more formal facilitated conversations and activities as the family reaches a particular size or number of generations. A great place to start can be a time when everyone gathers together—Thanksgiving, for instance.

## Family Council

A family council serves as the core of the governance system. Depending on the family's size, the council can be the entire group or a sub-group of members who are elected by the assembly. While an assembly enables each member to participate at least once a year, the council usually meets multiple times to address various initiatives, then report back at the annual gathering.

The initial council may include all adults and children over a specified age—depending on the family's complexity (i.e., number of generations, members' ages, or expansive nature of the business). As the family grows, the council may choose a representative from each branch of the family, generation, or age group. Some large, complex families may organize generational subcommittees that focus on specific areas of interest. For example, older generations may concentrate on succession planning while younger ones explore education, developing future heirs, and creating formal processes to better understand operations and decision-making. Other subcommittees might include wealth management, business, and philanthropy.

Specifically, the family council may:

- schedule family assembly meetings, retreats, etc.;
- review portfolio performance, and developing and discussing investment strategies for family wealth;
- examine trusts—assessing trustee performance, reviewing distributions, and creating policies for the use of trust-owned property;
- structure rules for ownership, management, and employment in the family business;
- create education and development programs to understand/manage assets and/or a business;
- establish policies for resolving conflict;
- design philanthropic activities (e.g., days of service or grants); and
- communicate the needs, desires, and values of the family to the corporate board (if there is an underlying business) or family office leader, in an organized and respectful manner.

Given that each family council is unique—with various expectations and obligations—it may make sense to draft a family council charter that outlines its purpose, responsibilities, and decision-making.

## Family Constitution

A family constitution is a formal document that assembles the agreements, policies, and expectations that govern family interactions and decision-making (**Display 5**). Its purpose is to articulate intentions and provide a roadmap to achieve the family's goals. A constitution outlines the objectives of the governance system. It provides guidelines that apply to the family, the family council, and the family assembly. It should also clearly define individual roles and responsibilities. While the family constitution is not legally binding, it offers accountability, especially if a member drifts from the agreed-upon values and vision.

### DISPLAY 5: FAMILY CONSTITUTION

#### Owners' Commitments, Rights and Responsibilities

<b>Central Family Values</b> <b>"Code of Conduct"</b>	<ul style="list-style-type: none"><li>○ Values pertaining to how family members will treat each other and act in the world.</li><li>○ Values they want to see reflected in the business.</li><li>○ How family members will use their resources to benefit others.</li><li>○ What the family will do to enrich society and each other's lives.</li></ul>
<b>Guidelines for Ownership, Inheritance, and Succession</b>	<ul style="list-style-type: none"><li>○ Outlines what is expected of owners, and how ownership will be passed from generation to generation.</li><li>○ How the family will deal with issue of:<ul style="list-style-type: none"><li>– Money and power;</li><li>– Distribution of resources; and</li><li>– Allocations of jobs, position, and authority in the business.</li></ul></li></ul>
<b>Responsibilities of Family Members</b>	<ul style="list-style-type: none"><li>○ Obligations of family owners, including participation in decision-making, confidentiality in sharing information, treatment of employees, and behavior in the community.</li><li>○ A clear statement of what family members are expected to give to the family in return for being part of the whole.</li></ul>
<b>Support for Personal Development</b>	<ul style="list-style-type: none"><li>○ How the family's wealth supports the education, aspirations, business ideas, and futures of its members.</li></ul>
<b>Marriage and Divorce</b>	<ul style="list-style-type: none"><li>○ Guidelines for participation by spouses in family governance and the business, and for protecting the business in the event of divorce. May define opportunities for employment and ownership as well as rules of inheritance for in-laws.</li></ul>
<b>Philanthropy</b>	<ul style="list-style-type: none"><li>○ Outlines the use of family wealth for philanthropic purposes, including recommendations on the levels of support that are appropriate and at what frequency.</li></ul>
<b>Recreational Assets</b>	<ul style="list-style-type: none"><li>○ Helps govern their use, payment for upkeep, decisions about changes and maintenance, and when or how vacation homes and shared properties can be purchased or sold.</li></ul>

Source: Family Firm Institute, Inc.

Creating a constitution takes time and effort from the entire family. Still, the unity and guidance it provides will benefit the family for generations to come. Reviewing the constitution regularly—every five to ten years, or at a minimum, every generation—can help stymie resentment and discord. Some families who anticipate the need for change as their family grows outline the timing and process for constitutional amendments. Other families require that the document expire at set intervals to encourage new leaders to put their stamp on the family's values, mission, and legacy.

## BEST PRACTICES FOR GETTING STARTED

Creating a governance system should be a priority. It takes commitment, time, and effort from the whole family to develop the right structure. Still, the time spent is incredibly valuable—to avoid common issues that may arise when wealth or business ownership transitions between generations. There are two keys to building a successful, long-lasting system:

- **Engaging an expert:** While family governance needs vary, hiring an expert to help identify values, facilitate conversations, mitigate conflict, and coach families through unexpected events or difficult decisions increases the odds of success. Yet even when enlisting help, the family—not the expert—owns the system's design.
- **Full involvement:** All family members should immerse themselves in creating the system. Independent of creating the structure and documents, the journey solidifies the governance system's impact. The family is more likely to embrace governance if everyone is involved in the conversation and contributes to its design. But family dynamics also influence success. For example, some members might avoid active participation, so it may make sense to have a smaller group build a framework and then elicit buy-in from the rest of the family.

Families may not believe a governance system is necessary. The current decision-makers may be reluctant to give up control or acknowledge the ultimate transfer of management. But as a family grows, the need for formal governance evolves. In these cases, a change of perspective can be helpful. Highlighting the opportunity to have input in the purpose of the wealth today and for the future, and how the family will make decisions can be a powerful tool to engage family members.

## PROACTIVE AND ADAPTABLE

Being proactive is critical. Recognizing that transitions are inevitable, the governance structure needs to be adaptable. Laying out a specific plan for a family's resources and values can help prospective heirs become better stewards of the wealth, ultimately improving the likelihood of preserving and passing it to future generations.

*Subsequent papers in this series will examine (i) how governance helps family enterprises achieve orderly decision-making and peaceful continuity and (ii) the role of governance in estate planning, philanthropy, and family offices.*

Click to find a [glossary of terms](#) and [resource list](#).

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