Putting Family First

The Power of Governance in Family Offices

Wealthy families looking to leverage complex estate plans to transfer wealth across generations often establish family offices to oversee and administer these advanced planning techniques. When paired with appropriate wealth transfer strategies, a family office or entity driven by a common purpose across generations can provide the benefits of centralized wealth management, efficiency, and privacy while safeguarding a family's legacy. However, even with shared aspirations, families often overlook the need for formal family and family office governance. Unfortunately, poor planning and the absence of established governance can derail plans to preserve wealth and undermine family cohesion for generations to come.

Family governance is a framework for joint decision-making among family members based on shared values and a common mission. Many successful families look to create a family office after a major liquidity event, such as selling a private company, undertaking an initial public offering (IPO), or coming into an inheritance. Though founding members may be well versed in corporate governance and business management concerns, family governance is more complex. Creating a governance framework requires consensus among members who may have different expectations for the allocation and use of family assets. These challenges often become more pronounced as family members disperse geographically and generational differences emerge regarding investment and philanthropic approaches.

The more you invest in governance for your family office, the more you communicate and interact with the family members, and the more you invest in the education of the next generation, the better the performance can be. Moreover, we found these families to be happier than others as they were able to balance their personal wealth with entrepreneurial creativity, philanthropy, and leadership in society.[1]

The first paper in our governance series, "Ties That Bind: How Sound Governance Supports Family Success," explores family governance as a framework for communication and decision-making. It provides a road map to organize families, guide their wealth transitions, and transmit knowledge and values. Many of the components of sound family governance referenced herein are discussed more thoroughly in "Ties That Bind." But that's merely a starting point. To ensure effective governance, each family office must establish its own policies and procedures and base its structure on shared family values.

1 "*Benchmarking the Single-Family Office: Identifying the Performance Drivers.*" Wharton Global Family Alliance at The University of Pennsylvania in partnership with IESE Business School in Barcelona. November 2009.

Family governance, along with choosing successful wealth management and transfer strategies, increases the likelihood of preserving generational wealth. Yet, when employing a family office, endurance also depends on the governance structures of the family office itself. Within the family office setting, governance should:

- outline ownership and management responsibilities,
- define boards and committees and how they function,
- detail policies and procedures for significant functions, and
- discuss how and when family members participate in decisions.

Most importantly, integrating the family office into the broader governance system helps the office understand who the family is. In turn, this allows the office to better align decisions with family values and mirror ambitions in the family office strategy. When well governed, family offices provide an unusual combination of benefits that make them a go-to for families with complexity. Ultimately, the office can centrally manage both financial and nonfinancial decisions that deliver a unified approach to achieving the family's legacy.

While other papers cover the decision to establish a family office and logistical considerations, this piece aims to outline the conditions for effective family office governance. We suggest that adopting a holistic approach—by integrating broad family governance with family office governance—makes decision-making more transparent and efficient while limiting conflicts. Finally, we define several strategies successful families use to position their offices to steward wealth over multiple generations.

An important note. Every family office is as unique as the family it serves. This paper is a starting point and intends to present many, but not all, of the considerations and options available to family offices today.

Beyond the Traditional: Growing Total Family Wealth

While it's natural for families to measure wealth quantitatively, research shows that those who remain successful across generations share a different definition of wealth—one that encompasses more than just financial capital (**Display 1**).

Governance practices can help families develop other forms of capital, instead of focusing solely on their financial assets. By growing the types of capital that replenish financial assets—such as human, social, and cultural capital—families create an additional layer of stability and support for their members. When well integrated, family offices can enhance these other types of capital by facilitating governance and engaging the family.

DISPLAY 1: WEALTH IS MORE THAN FINANCIAL CAPITAL

HUMAN CAPITAL

Health
Knowledge
Emotional resilience

- What makes our family members unique?
- Are family members thriving?
- Are they purpose-driven and productive?

SOCIAL CAPITAL

Relationships
Community
Philanthropy

- How do we demonstrate what our family stands for?
- Are our connections strong? Is conflict well managed?
- Do we have the impact we desire on our communities and the world?

CULTURAL CAPITAL

Values
Family identity
Mindset

- Do we continue sharing our family's heritage and traditions?
- Do we face the world as a unified family?

FINANCIAL CAPITAL

Capital assets
Business interests
Real estate

- Is the enterprise strong and secure?
- Does wealth entitle, control, or empower us?
- Do we have a multi generational strategy?

Adapted from Continuity Family Business Consulting and James E. Hughes, Jr. *Family Wealth—Keeping It in the Family: How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations* (Bloomberg Press, 2004).

Enterprising Families and the Proto-family Office

Families work hard to build their businesses and wealth while forming a legacy. Many enterprising families lean on their family firm to help achieve their objectives. Often overlooked, the family business can assume the role and responsibilities of a family office rather than the family establishing an independent legal entity. In these cases, families look to the company to support a range of family office services tailored to the unique needs of the enterprising family. While not traditionally considered family offices, this structure can be a cost-effective way to manage and support family wealth, transitions, and endeavors outside the business. Bernstein recognizes the critical role these proto-family offices play in managing future goals and transitions, along with the complexities surrounding them. Yet, while existing corporate governance directs and manages the business, family and family office governance are needed to organize and oversee the family.

Families that choose to maintain this embedded structure for the foreseeable future should establish family governance structures, separate from existing corporate governance. Formal governance structures, based on shared values and a common mission, can inform how the office fits in the overall family business structure and help balance the needs of both the family and the company. As a result, this formalized framework for decision-making and communication can reduce conflict and increase the likelihood of continuity for both the business and the family. Bernstein sees no better time to establish effective governance than before a pivotal moment (e.g., death of key decision-maker or the separation of the business and family office). Bernstein's unique position and skill set can help families articulate their common purpose while partnering to craft the governance needed to safeguard their values, aspirations, and legacy.

Governing the family: articulating values and goals

Families who successfully transfer wealth across multiple generations frequently view family values as the glue binding members together. Forming this bond starts with understanding each other's aspirations and then discussing and agreeing on a set of shared values. Successfully preserving wealth for generations involves putting the family first, then the family office. Considering questions like, where does our family want to go? What does our family want to do with our financial, human, cultural, and social capital?

Once the family defines shared values and establishes a sense of direction, they can craft a mission statement outlining the family's goals and plans to accomplish them. Thriving families tend to cite more than just accumulating additional wealth as their mission. They also outline objectives like charitable giving, making a social impact on the world, and preparing the next generation to be good stewards of their wealth—all of which help develop other forms of capital. Ensuring individual members' goals sit comfortably within the family's broader shared mission is a critical part of these discussions. When done well, the mission statement captures the family's values and guides decision-making, which can reduce conflict between current and future generations.

When a family recognizes what matters most, they can structure the family office with a cohesive strategy for using and growing their total wealth, executing their objectives, and targeting activities that fulfill their purpose. From choosing asset classes that correlate with their ambitions to hiring the right people to run operations, the family's mission should sit at the core of how both the family and family office operate. By defining values and communicating them to the family office, families can ensure they remain at the center of any decisions, projects, and plans the office handles.

Suppose a family's mission and values remain vague or undefined. In that case, the family office won't have the required direction to act on the family's behalf or manage opportunities and challenges as they arise. Committing to a unified set of family values and mission keeps the family office focused and on track.

Families should review their mission statement regularly and adjust as needed. If the family aspires for their office to thrive for multiple generations, skipping this step could result in losing touch with future family members. In contrast, reviewing the mission statement brings values to the forefront, stimulates meaningful family discussion, and reinforces family culture, communication, and respect. The ability to focus on a set of unified objectives from generation to generation separates tight-knit, enduring families from those lacking purpose.

Understanding the family's purpose and values—whether preserving long-term wealth, generating risk-adjusted returns, creating a legacy, or making an immediate impact—is the first step to fleshing out the governance required to keep both the family and family office intact. With the family's values guiding the office's operations, the family can unite around the organization's purpose.

The family governance system guides the family office

Often, intra-family disputes arise over investment choices, the distribution of wealth, or spouses' roles in discussions or the family business. Effective governance structures foster family cohesion by ensuring transparency and creating a way to resolve disputes.

Though there are no set rules, family governance typically includes the following three components:

Family Constitution

A common way for families to organize and document their values and mission is through a family constitution. A constitution is a formal document that outlines the agreements, policies, and expectations that govern family interactions and decision-making. While a family may feel that unwritten agreements suffice, a family constitution provides much-needed clarity and guidance that helps keep the peace during challenging times and sets future generations up for success. Some constitutions take a broad approach, focusing only on the family's mission and values. Yet the most effective documents are more robust and drill down on essential details such as decision-making authority, operational policies and guidelines (hiring criteria, requirements for family members who want to work for the office, etc.), and steps for conflict resolution.

Creating an effective constitution should be a collaborative process. Families should consider how their total wealth can be transferred and grown to achieve their goals and objectives. The family's wealth creators deserve significant input to preserve their values and mission. The drafting process also presents an excellent opportunity to engage younger family members, working together on a family values statement and determining how they can utilize all forms of capital to benefit the family.

A key advantage of creating and adhering to a family constitution is preventing and resolving conflict among family members and family office staff. Misalignment around the use of family office resources, who holds decision-making authority, the family's voting process, or whether investments are performing satisfactorily can cause strife. Defining and upholding hiring criteria also helps ensure the best and most qualified people work for the family office. To that end, the constitution should define roles, responsibilities, accountability, and authority.

Establishing and maintaining a family constitution ultimately leads to more efficient decision-making and prevention of conflict, allowing for greater cohesion and more attention to the office's mission and objectives. Reviewing the constitution regularly helps families determine if updates are necessary as the family evolves—more frequently with newer family offices and perhaps every two to three years for established entities. While the constitution has no legal standing, it does have a bearing on the legal documents supporting the family's intentions (e.g., articles of incorporation, buy-sell agreements, etc.).

> Creating an effective constitution should be a collaborative process involving both wealth creators and younger family members.

Family Council

The family council is a governance structure composed of family members focusing on family matters. When a family office exists, the family council is considered an additional layer of oversight. In most cases, the family council acts as an intermediary between the family and the family office, promoting communication, providing a safe harbor for conflict resolution, and educating the rising generation. More specifically, the council can equip all family members to grow together or develop their human capital. It can also provide further financial, educational, or personal assistance, if given the mandate.

To establish a council, first determine how many family representatives should sit on it and outline the criteria for selection. The number of council members should be determined by the size of the family, its structure, the role some members play in a family's business, and geographic location, among others. A council of three members may be too small, but a council of thirty is definitely too large.

Family councils, like families themselves, do not fit a mold. A council's position within the family can fluctuate depending on members' needs. Some assume a businesslike role in leading the family. Others adopt a softer focus, aiming to foster better family communication and cohesion across larger, geographically disbursed branches and individuals. And in some cases, families design the council to ensure the rising generation is well represented and involved in the family's future direction.

Similarly, there are no set rules for how a family council operates. With that said, once a council is established, families should consider crafting a governing document, or charter, for oversight purposes. For example, a charter formalizes the council's responsibilities, including the authority to make decisions—especially financial decisions—on behalf of the family. The charter also guides its role within the larger family office structure. Often, the family council partners with the office to organize family assemblies, retreats, and vacations. Councils can also work with the family office to arrange educational workshops, such as courses on investing and financial stewardship, for example. Most notably, if the family council lacks a clear role, apparent authority, full support of the family, and viable working relationship with the family office, it tends to recede into irrelevance.

> If the family council lacks apparent authority and a viable relationship with the family office, it tends to recede into irrelevance.

Family Assemblies

Families often establish an assembly to keep the broader family unit connected and informed. A family assembly is a regular meeting or gathering of all active adult members, their spouses, and children over a certain age. The family assembly operates in conjunction with the family council and meets regularly (often annually or twice a year) to share information about the family office and business, discuss strategies, and foster education of the rising generation. Assemblies (or retreats) can also include non-family professionals and trusted advisors providing timely insights on different topics.

Families can cultivate social capital by using the assembly to keep the family connected. In contrast to the family council, which may be more formal, the family assembly offers a more relaxed forum for sharing updates, celebrating milestones, and learning about different initiatives. Topics may include educational goals, charitable interests, accountability standards for personal achievements, and other important issues. The gathering also provides a platform to discuss intentions for future generations. At the same time, older members remain active and help shape how their legacy will be carried on. The rising generation can also use the assembly to carve out a separate identity by defining initiatives unique to their cohort.

Often, the family office plays a valuable role in planning and coordinating family meetings and retreats. For families who meet regularly, the family office can take the lead in scheduling, agenda setting (with input from members), and sending out information to review before specific gatherings. Further, the family office should record meeting minutes and distribute them to the broader family using an established method, such as a family newsletter or a family website.

The assembly also serves as a forum for creating well-defined policies that guide investment, philanthropy, succession, and estate planning decisions that the family office ultimately carries out. These policy ideals may include purpose and expectations for future generations.

Having the office facilitate these assemblies adds a level of leadership within the family. It provides a structure that promotes effective dialogue around wealth creation, transfer, and stewardship while keeping the office and staff informed of the family's intentions.

Guided by the family's values and mission, a family office can provide advice on framing a constitution, forming a family council, improving communication and decision-making, conducting meetings, and developing future leaders. Once established, the family office should organize a central repository to store governance documents and related materials so the family can access and review them as needed. This transparency ensures the family office follows pre-approved governance initiatives.

Governing the family office in a way that grows all forms of family capital

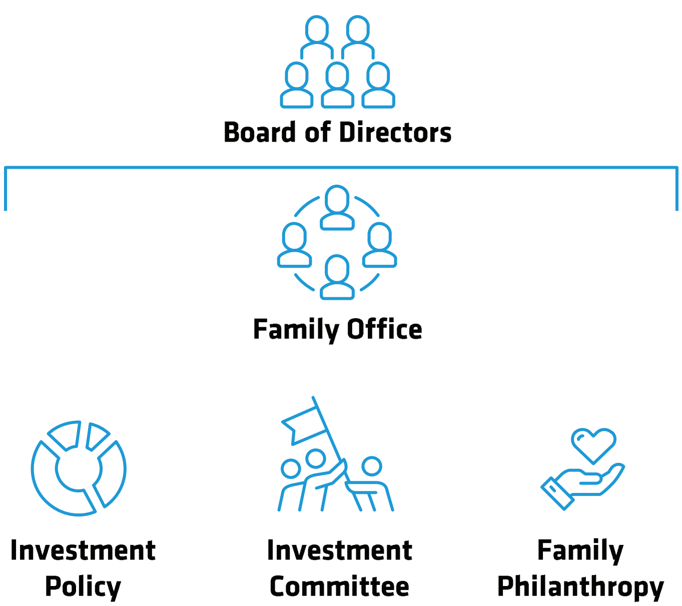
Well-crafted, integrated governance structures allow family offices to make informed decisions that align with the family's values, mission, and investment goals. That notion extends to the rising generation of family wealth owners, who should be included in order to lay the groundwork for a smooth wealth transition in the future.

Effective family office governance encompasses appropriate levels of expertise, clearly defined responsibilities, objectivity, alignment of interests, checks and balances, and conflict management. Various governing policies, boards, and committees provide additional oversight and engagement between the office and the family. These can include but are not limited to a family office board, investment committee, investment policy statement, philanthropic committee, and succession plan. In all cases, the goal is to ensure that all forms of family capital are managed according to the family's purpose—whether through investments, philanthropy, or succession planning.

Board of Directors or Trustees

The board is responsible for the family office's well-being. It oversees the office's functions, executives, and employees, ensuring the appropriate management policies are implemented. To do so, the board must make important periodic and ongoing decisions supporting the broader family's mission (**Display 2**).

DISPLAY 2: WHAT IS A BOARD OF DIRECTORS?



The family office structure will guide the board's composition. For instance, if a family office is incorporated, a board of directors must be established, while the articles of incorporation[2] will set the rules of conduct. Voting procedures at director and shareholders' meetings and the mechanisms for electing and removing directors from the board are other key considerations for the articles.[3] Alternatively, if members opt to manage their family office through a trust, the trust agreement becomes the guiding document. A trust deed should appoint the initial trustees and establish voting procedures for major decisions involving family assets and outline mechanisms for replacing or removing trustees. Other aspects to include in governing documents (either the articles of incorporation or the trust) are board responsibilities, decision-making criteria, frequency of meetings, and various information and reports owed to the family.

Families may also consider a hybrid structure to manage family wealth, where a family trust controls multiple corporations holding different assets. In this structure, the family trust becomes the shareholder of each corporation, and trustees are empowered to appoint and elect directors (who may be individuals drawn from outside the board of trustees) to manage the respective corporations. This hybrid structure often comes into play when family members wish to segment their assets for different purposes, just as some corporations establish other structures to manage or deal with single properties or investments.[4]

Regardless of the structure, board members should have expertise in fields relevant to the family's mission. When determining the board's makeup, family members typically serve alongside external non-family members. Independent third parties tend to bring experience and objective advice that can enhance, strengthen, and diversify the family offices' investments and operations. However, while third parties may provide valuable insights, families should remain heavily involved.

If the family has privacy concerns, they may appoint an interim advisory board without voting rights to help strengthen the board and provide advice on specific topics. An advisory board can help the family grow more comfortable with including external board members with an eye towards a fully functional, more diverse board in the future.[5]

2 Articles of incorporation refer to the highest governing document in a corporation. Generally, it includes a purpose for the corporation, the type and number of shares, and the process for electing a board of directors. https://www.law.cornell.edu/wex/articles_of_incorporation

3 A shareholder of a family office is a person (often family members, but not required) who owns shares in the family office and therefore gets part of the profits and a voice in managing the family office. Cambridge Dictionary.

4 "Current Leading Practices for Structuring the Family Office." Eric L. Johnson, CPA, CFP, MST. October 1, 2011. https://www.thetaxadviser.com/issues/2011/oct/johnson-oct2011.html

5 A family advisory board is a body (external to the family and the family office) intended to provide objective and functional expertise to the board of directors and management of the family office. https://www.bbh.com/us/en/insights/private-banking-insights/the-benefits-of-a-family-business-advisory-board.html#:~:text=At%20its%20core%2C%20a%20family,management%20of%20the%20family%20business.

One of the board's most critical tasks is overseeing the family office's investment strategy. Typically, the board sets and approves the investment governance structures and then delegates responsibilities to an investment committee for implementation and ongoing monitoring.

Investment Governance

Well-crafted investment governance captures the family's financial objectives and drives a strategy for their assets. More importantly, when the family integrates their office with the overall family governance system, the shared values can inform the investment approach. Incorporating family values into the investment strategy creates an impactful experience, strengthening connections and engagement among members and with the overall wealth enterprise.

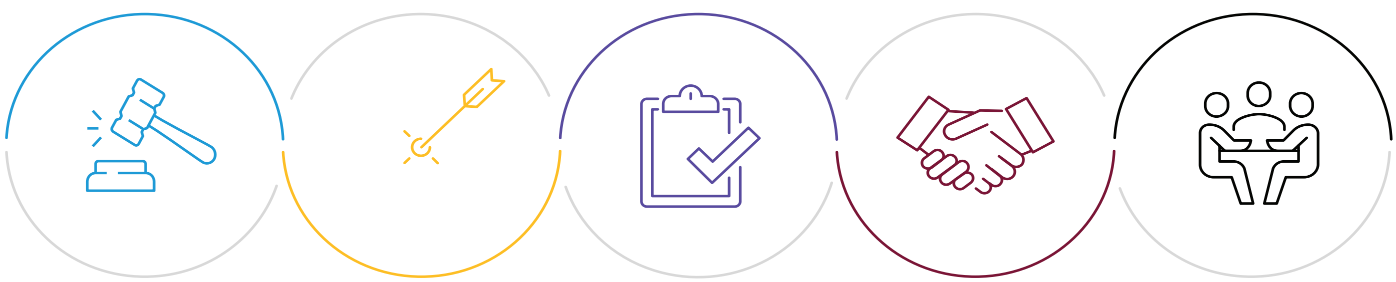
Families evolve, as do investment opportunities. Families who include rising generations in the investment conversation can better ensure continuity in the stewardship of assets across generations. For example, routinely reassessing shared values allows families to incorporate insights from the rising generation who will lead and manage the office one day. Through active dialogue, younger generations might suggest incorporating impact investing in the overall strategy, which may not otherwise occur to older generations. Giving next-generation members a voice, working through differences, and finding alignment can ensure more unified decision-making and a more satisfying investment experience.

Investment governance—through an investment committee and investment policy statement—provides a road map for effective decision-making. While there is no one solution for all families, the following governance considerations can lead to the successful growth and preservation of a family's wealth for future generations.

Investment Committee

An investment committee accountable to the board of the family office is usually formed to focus on investments. The committee aims to synthesize disparate opinions and execute on finalized decisions. There are many approaches to forming an investment committee to fit a family's needs. For instance, investment committees often consist of more non-family professionals who lend expertise, objectivity, and accountability. They work together, guiding the strategic direction of the family's investment portfolio (**Display 3**).

DISPLAY 3: OVERSIGHT CONSIDERATIONS FOR THE INVESTMENT COMMITTEE



Authority	Purpose	Responsibilities	Membership	Meetings
Stipulated by any legal entities or vehicles linked to the broader governance and ownership structure.	Alongside decision-making, include provisions for communication to the family and education of the rising generation.	Include establishing policies and investment objectives, determining risk tolerance, evaluating performance, and monitoring costs.	Outline qualifications and requirements for filling various positions on the committee, a process for nominations, and rules for making decisions and compensation.	Provide details on the frequency of regular meetings, the case for special meetings, agendas, minutes, financial reports, and other written materials.

Source: "Investment Governance: Creating a Framework That Works for a Family." Charlie Grace. September 2022. https://www.cambridgeassociates.com/insight/investment-governance-creating-a-framework-that-works-for-a-family/

DISPLAY 4: INVESTMENT POLICY STATEMENT BEST PRACTICES

Empowering families to make more informed investment decisions

Goals and Objectives

- Do reserve policies align with the organization's strategic plan and initiatives?
- How much is required to maintain in reserves based on financial risks and opportunities?
- Is this the best use of our liquid assets based on the time horizon and needs?
- How much risk should be taken?

Governance Procedures

- What is the role of the staff and of the board?
- Which decisions are made by volunteers, staff, and outside experts?
- Under what conditions are advisors hired or replaced?

Reporting Requirements

- What critical investment guidelines need to be approved?
- How should performance expectations be clarified?
- Do investment reports provide reasonable information to evaluate managers and investments?

Additional Components

- Overall portfolio objectives
- Cash flow expectations
- Investment time horizon
- Permitted/prohibited investments
- Target asset allocation
- Roles/responsibilities
- Decision-making authority
- Guidelines for:
  - Rebalancing and diversification
  - Performance evaluation/benchmarking
  - Selection/replacement of managers/advisors
  - Socially responsible investments

Decisions involving family assets can significantly impact the family office's long-term sustainability. When the board delegates investment decisions to a committee, they must also establish a policy or charter providing oversight. Before creating a charter, the family should consider critical elements such as the voting thresholds required for decisions. The document should also cover the key concepts in Display 3, at a minimum.[6]

An investment committee may only suit certain families. Other options include delegating investment decisions to the board of directors, trustees, or a third-party investment advisor. Families should outline specific responsibilities related to managing family assets in the investment policy statement.

Investment Policy Statement

Regardless of who makes investment decisions, the family's agreed-upon investment policy must be followed. Such guidelines should include approving an investment strategy, hiring investment managers to implement it, and monitoring portfolio performance regularly to ensure compliance.

The investment policy statement (IPS) is a foundational document designed to address the objectives, constraints, unique circumstances, and wider oversight processes that govern investment-related activities of the family office (**Display 4**).[7] An effective IPS clearly outlines the responsibilities of all parties involved in the family office's investment program—the board of directors or trustees, the investment committee, the investment provider, and the custodian of the assets. It should outline the family's financial objectives within the context of their risk tolerance and desire to support financial and nonfinancial goals. The long-term strategic asset allocation should include allocation targets and broad ranges to allow for flexibility in implementation as opportunities and risks evolve, potentially impacting investment goals. Lastly, the IPS should define operational guidelines and rules for monitoring and reviewing all aspects of the investment program.

6 "Investment Governance: Creating a Framework That Works for a Family." Charlie Grace. September 2022. https://www.cambridgeassociates.com/insight/investment-governance-creating-a-framework-that-works-for-a-family/

7 "Investment Policy Statements." Greg Coffey, CFA. October 2019. Russell Investments Research.

Crafting an IPS is an inherently dynamic process. The IPS should be specific enough to give guidance—but not overly restrictive. While changes should be infrequent, an annual review ensures all content remains aligned with the family's long-term objectives. Successful families also seek input from trusted professionals during the design and review process to help uncover potential risks and issues that may have been overlooked. The result is an easily understood document that sheds light on the family's investment strategy.

Philanthropy and the family office

Charitable giving can help maintain tradition and bring family values to life. But too often, family offices function merely as a conduit, carrying out tasks and donating funds without a strategic, integrated philanthropic plan. Many family offices manage multiple philanthropic buckets, including donor-advised funds, private foundations, and outright giving by numerous family members. Administratively, it can be a lot to handle. Organizing the approach and crafting the necessary governance structures and committees can help families better focus their philanthropic efforts, engage younger generations, and align charitable investments with family values. The family office can also more effectively coordinate the philanthropic endeavors of diverse families with multiple branches in numerous locations (**Display 5**).

Families that organize around philanthropic activities also have the chance to collectively build their social capital and define the impact they wish to achieve in their community. If philanthropy is a priority, the family office can help manage the efforts through philanthropic planning, establishing and administering charitable institutions, guiding a grant strategy, and organizing family philanthropic activities. Other advantages of utilizing a family office to execute a family's charitable goals include integrating administration, tax strategy, and governance with corresponding functions unrelated to the family's philanthropy. For example, if the family office manages all the family's investable wealth, it can leverage its understanding of non-charitable assets while managing a foundation's investments.

DISPLAY 5: SUPPORTING FAMILY PHILANTHROPY

Family offices can support the family's philanthropy in a number of ways

Planning

- Facilitate meetings to articulate family motivations and identify chosen areas to support
- Research areas of need that align with the family's goals
- Examine appropriate tax strategies that align with the family's overall investment structure

Governance

- Help families articulate a philanthropic mission and process for making decisions— formulate in writing
- Advise on subcommittee, board structure, and foundation (if appropriate)
- Outline distribution requirements and create written policies
- Craft dispute resolution policies
- Educate and engage current and future generations on the role of philanthropy in the family

Implementing the Strategy

- Establish giving vehicles
- Identify causes, charities, organizations, and projects to support
- Conduct due diligence on organizations
- Manage and oversee donation and grant agreements
- Review and monitor giving portfolios

Assessing the Impact

- Obtain and review reports from organizations
- Monitor donations and financial reports
- Survey grant recipients and community members to evaluate results

Ultimately, the office should memorialize the family's philanthropic goals in the constitution by including at least the following details:

- A mission and vision statement
- Intentions for the lifespan of the charitable fund (measured in years or perpetuity)
- Details on the optimal size and composition of the philanthropic committee and board (if appropriate)
- Guidance communicating decisions to the broader family

If the family has a private foundation, the family office staff can ensure the foundation's mission and values align with the family's broader ideals while providing leadership and management of the assets. With the right expertise, the family office can also ensure a private foundation follows the many nuanced regulations that surround it. Absent a private foundation, the family office—alongside a philanthropic committee—can organize, operate, and govern the family's philanthropy.

Creating a philanthropic committee at the family council or the board level can help coordinate various initiatives the family may pursue. Like the investment committee, members of the philanthropic committee make necessary decisions and provide oversight, ensuring alignment between philanthropic dollars and the family's mission. Regardless of structure, if the board delegates charitable responsibilities to a committee, it must also establish the policy overseeing its decision-making responsibilities and processes.

Many families consider philanthropy an unparalleled opportunity to share values, skills, and creativity. When this is the case, families often task the family office and philanthropic committee with mentoring the rising generation and instilling a charitable mindset to ensure the continuity of the family's philanthropic endeavors. Govern Your Giving: Putting Structures in Place to Promote Philanthropic Traditions highlights how families can use philanthropy as a force for unity in the present while ensuring continuity in the future.

Succession planning

Current and future generations of the family served by the office count on its leadership to be good stewards of wealth. Planning for an unanticipated disruption in family leadership and ensuring the peaceful transition of management, control, and administration is integral to the long-term viability of both the family office and the family it serves.

One approach to building a succession plan includes employing younger family members and having them assume management responsibilities and ownership of the family office over time. As the rising generation matures and shows interest in overseeing family wealth, they can participate in family office governance. There are many roles they can fill, such as joining the investment committee or family office board. Each position requires an in-depth understanding of the family office's mission, structure, and investments. If families empower the next generation with an active role, the chances for continued family cohesiveness increase significantly.

Families need to give the cultivation process the time, attention, and consideration it deserves. They should scope the responsibility and think about the knowledge critical to success. Then, as part of the plan, the office can create an education plan for members of the rising generation interested in understanding general management and investment decisions, estate and trust structures, and investment terminology. Family office board members should also understand how to manage internal personnel and advisors, review financial statements, and weigh in on the services provided.

Considerations for Sub-committees

Whether at the family council or office level, a family often creates sub-committees focusing on specific matters as part of the overall governance framework. Other committees—besides investment and philanthropy—could include succession planning, community giving, compensation, or other areas deemed relevant as the family evolves.

When formed, committees can be classified as either advisory or empowered with full voting privileges. Either way, the office needs to outline necessary guidelines, by answering the following questions:

- Who is allowed to join?
- Is equal representation from all branches of the family required?
- When can children participate?
- Will spouses and partners be allowed to take part?

Establishing sub-committees allows each family member to become well versed in the dealings of the various governing bodies. The family office can also support the onboarding and orientation of new family members stepping into governance and committee roles.

Succession plans will look different for every family office. Formalizing the plan can give current leadership peace of mind, ensure buy-in and collaboration, prepare potential internal successors, and identify critical qualities for external candidates.

Conflict resolution

As families grow exponentially—with the birth of children and grandchildren and addition of in-laws—the potential for discord multiplies. Unfortunately, informal structures are more likely to collapse when placed under significant stress. In contrast, effective governance ensures the family office follows established rules, which can prevent a breakdown in communication if family tensions arise. What's more, formalizing the mission and direction with sound governance can improve the structural integrity of the family office. Without governance capturing agreed-upon guidelines, family conflict can rapidly intensify. Implementing formal governance for the family office helps keep peace among members while perpetually protecting the family's assets during good times and bad.

Dissolving a family office

Often, families design an office to serve multiple generations, but no family office is guaranteed to last forever. Giving members the freedom to leave is critical to sustaining the office long-term. As families grow, some members may find the office structure no longer meets their needs. An office can also collapse under the weight of conflicting demands and the high cost of supporting tens (or hundreds) of family members. Other times, a family office may recognize they can no longer achieve the family's mission. Or mission changes may mean some activities are no longer cost-effective. In any case, there are options a family can pursue. If a member chooses to leave, having a formal process—documented in the family constitution—can help facilitate a calm, organized exit. These details may include provisions for valuing shares or making payouts over time to the outgoing beneficiary. In other cases, the family office may undertake a wholesale, orchestrated dissolution. Dissolving the office isn't a decision families enter into lightly. Closing an office is complex, expensive, and time-consuming. It is best to seek advice from peers and professionals who can help navigate the process successfully.

Move forward with confidence

It takes deliberate effort to ensure wealth and relationships are preserved for generations to come. When families integrate a family office into their overall governance framework, they remain at the center of decisions made by the office. This holistic approach positions the office to help strategically grow all forms of capital, which is critical to managing and preserving a family's wealth.[8]

Coordinating family and family office governance makes decision-making more transparent and efficient, freeing up time and attention to devote to the family's mission. When family members align around a shared purpose, it also prevents and resolves conflict, which supports family cohesion. If the family office knows the family intimately, it can align investments with shared values, play a key role in educating and developing members, facilitate succession planning, and implement philanthropic strategies.

> Coordinating family and family office governance makes decision-making more transparent and efficient, freeing up time and attention to devote to the family's mission.

Since every family differs, tailoring the governance structures to the specific family situation is essential. What's more, as family wealth and business activities evolve, so must the family and family office governance. Ultimately, the reward for a family that dedicates time and commitment to structuring a sound governance framework is a unified, sustainable family office that preserves values and safeguards the family legacy for future generations.

8 Complete Family Wealth, Hughes, Whitaker, and Maxxenzio ©2017.

BERNSTEIN

BER-2030-0623
Bernstein.com