Family Governance:
Making It Work for Your Family

By Nancy McColgan | Managing Director of Verdence/FAMILY

Key Takeaways:

What are the Challenges of Wealth Transition?
Why is Family Governance Important?
What are Custom Approaches to Family Governance?
What are Examples of Family Governance?

Effective Family Governance for Wealth Preservation

Families with significant wealth face numerous challenges, particularly when transitioning wealth to the next generation and managing various wealth-related matters. Key issues include establishing trusts for newborns, training young adults for leadership within the family or business, and educating younger generations on stewardship, charitable giving, and financial responsibility.

A common adage among the ultra-high-net-worth community is "shirtsleeves to shirtsleeves in three generations." This saying, attributed to philanthropist Andrew Carnegie, refers to the cycle where wealth built by one generation is often lost by the third. It is informally predicted that by the third generation the majority of wealthy families may lose their wealth. Furthermore, poor planning around wealth transfer, estate, and gift taxes can accelerate this process, causing wealth to dissipate in just two generations. Therefore, proper preparation, planning, and communication are crucial to preserving wealth.

When to Focus on Family Governance

Having worked with ultra-high-net-worth families for over a decade, I've seen that "family governance" can mean different things to different families. There is no standard definition or ideal application, as each family is unique, and wealth can be "old" or "new." As family assets grow in value and complexity, and as life events such as births, deaths, marriages, and divorces occur, the need for governance and oversight becomes more apparent. Typically, families recognize this need as the second or third generation reaches adulthood.

How Families Carry Out Family Governance

Many families use different strategies to implement family governance. One great way to start is with a mission statement. This statement summarizes the shared values, vision, and purpose of the family's wealth. For example, it may reflect the core values and vision of the wealth creators, aiming to pass these principles to future generations.

While a mission statement is not strictly required, it provides a clear starting point for aligning the family's goals. Families should focus on what they want to achieve through family governance rather than perfecting the mission statement. By starting with a mission statement, families can create a unified approach to wealth management. This can contribute to transparency, effective communication, and the preservation of their legacy.

1. Driven by Philanthropy

For example, a first-generation wealth creator in his 60s established a family foundation supporting specific local causes. He involved three of his four adult children in discussing the foundation's goals. All other topics - related to estate planning, trusts, wealth transfer, etc., were off the table. One initial, in-person meeting was held, and several one-on-one phone calls. Initially, the effort was minimal, but the wealth creator was able to communicate what was important to him. This created a positive dynamic within the family, eventually leading to discussions on other topics.

2. Operating Company Update Focus

In another case, a privately held $2 billion family-owned company is managed by one of three second-generation members. The other two receive distributions and proportional ownership shares but are not involved in management. The siblings review the company's financials at quarterly meetings, but each family line determines their children's financial management education and stewardship. One of the three siblings takes advantage of training through their advisory firm. The others do not because they have younger children who are not yet ready for more education and preparation.

3. Investment, Trust, and Foundation Focus

Likewise, a divorced first-generation wealth creator meets bi-annually with his four children and in-laws, excluding grandchildren at a neutral location. They discuss family trusts and legacy, investment allocations, and their donor-advised fund. They also rotate charitable allocation responsibilities among family lines.

4. Old Wealth

Heirs of an early 20th-century industrialist (five lines of cousins) meet bi-annually for a family reunion in the town where the wealth originated. Some family members attend consistently, while others do not. Over the weekend, they review family history and legacy, catch up with each other, and participate in a family picnic. While their only connection is the small pockets of inherited wealth and the original family homestead, some members remain involved in several family foundations.

5. Single Family Office

Lastly, a multi-billion-dollar family with four generations holds an annual family meeting for members over 18. The structured meeting, held over a weekend with a firm agenda, focuses on legacy, trusts, charitable giving, investments, and educating younger generations on wealth oversight and stewardship.

Customizing Family Governance

Each family's approach to governance is unique, with no standard formula. An experienced financial advisor can help develop goals, objectives, and a format that aligns with a family's unique style and needs. Effective family governance is designed to facilitate wealth preservation and promote responsible stewardship across generations.

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