

Family Governance



BRAEBURN
FAMILY OFFICE

Mission Statement and Governance – What does it mean and how does it apply to a Family operating within a Family Office dynamic?

Whether first generation Silicon Valley wealth or 31st generation of the House of Medici, every Family requires purpose. This purpose is articulated through the creation of *their* Mission Statement. The Mission Statement is the spring from which all Family accomplishment, continuity, and legacy flows.

The Mission Statement pronounces the purpose of the Family and the wealth it is stewarding through multiple generations. The Statement incorporates values as well as goals and objectives. Mission Statements are unique to each Family as they are the product of focused reflection, discussion, and deliberation among Family stakeholders. The Statement is most successfully implemented when the product of multiple Family members' contributions.

Important elements of a Mission Statement include: where does the Family want to be in ten, twenty, fifty years, one hundred years, what values are of paramount importance, what legacy does the Family engender, what causes are important, how will the Family treat and respect its members and stakeholders. It is a proclamation of the principles that guide the Family forward through multiple generations.

A Mission Statement:

"As a family we strive to create and maintain an environment where all family members are valued and supported in their pursuits. We pledge to work together to excel in all our endeavors through hard work, focus, imagination, and ethical business practices. We support the communities we live and work within and appreciate these communities are an extension of our family. We commit to leave each succeeding family generation a financially and dynamically healthy platform from which they may pursue their ambitions and dreams in perpetuity".

Our Family Values:

- Respect
- Integrity
- Industriousness
- Collaboration
- Excellence

The evolution from Mission Statement to Family Governance policies and convention follows a natural path.

“Governance” is derived from the Greek “Kubernaein” or “Kubernan” meaning “to steer”. Prudent, well-constituted Family Governance policies and conventions allow the family to steer clear of challenging circumstances and un-forced errors. Most importantly; these protocols provide a path around the unforeseen obstacles that fall in front of every family at some point in their existence.

Governance is the establishment of policies for the common Family good and the appropriate and best use of resources. In addition to the creation of policies, governance requires the execution/implementation and monitoring of these policies. Governance policies must promote and enhance the prosperity of the Family while balancing the interests of individual members.

In the context of Family; creation and disciplined implementation of appropriate and prudent governance dynamics is paramount to the long-term success, legacy, and indeed survival of the Family.

Successful families mimic corporate entities in their operation and function. Is it possible to imagine a successful corporation surviving without a Mission Statement, transition strategy, business plan, and governance structure? Of course not!

A successful Family **MUST** implement the same disciplines and conventions to ensure intermediate and long-term continuity and prosperity. Governance requires the establishment of guidelines that dictate how the Family functions. These guidelines institute conventions to address transition, communication, estate planning, philanthropic, and intra-family dispute resolution issues.

Transition – What are the plans for succeeding generations attaining responsibility for Family business interests? What contingency plans are in place to manage the unexpected death or disability of a patriarch/matriarch?

Communication – How are decisions and news communicated to the wider Family? Who is entitled to know what news/developments? How often will the Family meet outside of their Annual Meeting?

Estate Planning – What is the estate plan of the founding/senior generation and how does it impact the estate plans of the succeeding generations? How does the estate plan weave into the Mission Statement and legacy of the Family? How is the estate plan communicated within the Family community?

Philanthropy – What is the Family philanthropic strategy? How is the strategy implemented and monitored? How is impact of strategy measured and what procedures are in place to make changes to strategy? What Family members shoulder what responsibilities within the philanthropic dynamic?

Intra-Family Dispute Resolution – All families experience disagreements. It is of paramount importance a facility is in place to address and resolve these disputes in a timely and prudent manner so as to avoid a festering dynamic that distracts from the core mission and legacy of the Family.

An unfortunate example of a Family where a prudent governance protocol would have been very effective played out through a Midwest Family with sizeable real estate assets. The patriarch created an estate dynamic where the four adult children served as co-successor trustees. When questioned regarding the prudence of not having a governance protocol and allowing for no clear-cut decision maker; the patriarch stated the “kids are best friends” and there is no need to place decision-making responsibility in a single child’s hands. Upon the death of the patriarch and several years later the matriarch; the four children fell into a tragic dynamic of disagreement and quarreling. This resulted in enormous legal fees and the disintegration of the relationship between the children. An unforced error.

An independent Advisory Board of three – five members brings fresh perspective and liberty from Family dynamics. The Board provides candid counsel to the Family based on their life and commercial experience. The patriarch/matriarch should give strong consideration to directing succeeding generations to appoint one/two Board members. In addition to structured meetings (perhaps semi-annually) the Members are available to family members for spontaneous advice and guidance.

An additional dynamic managed through governance policy is Family employment. It is critical to establish clear policies addressing Family employment within the Family business. Best practices suggest children/grandchildren find employment outside Family interests for a specified period of time prior to joining the Family business. This is prudent for several reasons. The Family member should “enjoy” and understand the experience of being an employee. Appreciating they are expected to adhere to specific employment policies through outside employment brings “enterprise maturity” when/if they return to the Family business.

There is also the not-so-subtle benefit of enhanced self-esteem. Knowing one can succeed outside the Family womb is exceptionally valuable when returning to the Family business.

Perhaps most importantly is the benefit in the eyes of the non-Family employees/stakeholders. There is earned respect when a Family member is viewed as having "paid their dues" outside the protected ecosystem. A healthier and more productive work environment exists where there is mutual respect between employer and their employees.

A final thought regarding Family governance is the concept of an Annual Meeting. An Annual Meeting provides a great forum for the Family to unite and review the "business" of the Family. The Meeting is curated and includes Family members, spouses, and children. A typical time allotment is three days. The meeting should be held offsite and include non-business activities. An agenda might include a review of the Family business, any updates on Family dynamics (births, deaths, divorces, etc.) and their impact on transition planning. There are breakout sessions for topic specific discussions where non-Family members are excused.

Outside advisors should be invited to attend and review specific performance and expectations. I also recommend inviting a keynote speaker to share thoughts regarding a topic of particular interest.

A multi-generation Family holds an annual meeting in Colorado each summer. In addition to reviewing the state of the business, the Family estate planning attorney reviews updated tax laws and what, if any, changes have been executed for the transition plan. Their outside investment team provides an update on the liquid investment portfolios. Philanthropic commitments and strategies are reviewed. The non-adult children spend time in a financial literacy "class". The Family has invited outside speakers as diverse as published authors and retired military officers to provide keynote dinner speeches. Perhaps most importantly, time is dedicated to review the Family Mission Statement and Governance policies. This allows the Family to re-affirm their commitment as a Family enterprise. Fun activities such as white-water rafting and hikes are scheduled which further bring the Family together.

Through the scheduling of an Annual Meeting Family members know they are committed each year to an extended weekend to continue the process of enhancing their Family dynamic and legacy for future generations.

The creation of a Mission Statement and Governance Policy is a commitment of time and intellectual capital requiring the commitment of all stakeholders. The rewards and benefits of a prudent Policy are shared through multiple generations.