

# Family Governance – An Introduction



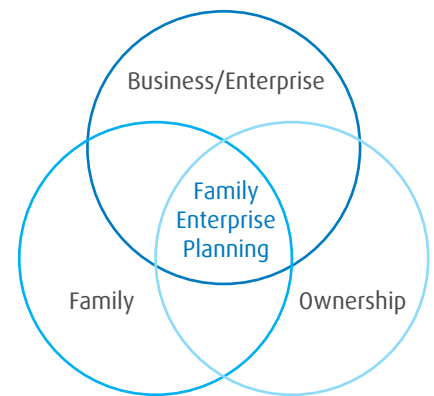
Families that have multi-generational intentions are often seeking information on how to create a legacy for their wealth. They also have questions about how to get started with preparing and educating heirs for this purpose. Each family situation is different, and there are best practices and specific family and enterprise considerations that will guide the path forward. The uniqueness of each situation can include regional and cultural differences around the globe. Family enterprises occur when all assets, such as business(es), financial assets, philanthropy, and family are interconnected together through ownership and engagement.

## Governance – What is it and why is it important?

The term governance is used in a variety of contexts surrounding family enterprises or corporations in general. For family enterprises, the three-circle model originally developed at Harvard Business School, is used as a foundational tool to define the family, business, and ownership circles, and the overlapping framework for understanding the complexities of the entire system.

The family’s multi-generational legacy plans may include preparation of the wealth for the family, and preparation of the family for the wealth. The goal for family governance is to keep the family connected, build communication and trust, as well as to guide intergenerational unity. It can assist with fostering meaningful conversations, along with roles and responsibilities for members of the family enterprise. From our experience, developing a communication framework, together with ensuring ongoing communication and education, are some of the keys to success.

Family enterprises are not born, they’re built.



Source: Adapted from Taquiri and Davis, 1996

One definition of family governance is, “It is a way of managing short and long-term plans, decisions, rules, policies and values, and of managing conflict. It’s a way of building consensus and unity in the family regarding the directions and goals of the family enterprise.”

Source: Family Enterprise Canada

Family governance focuses on the tangible (financial) and intangible (non-financial) capital of a family enterprise. It also facilitates a continuous process that has various steps, to understand from the starting point (individually and collectively) where the family intends to travel to on this quest toward stewarding wealth multi-generationally. Along the journey, there becomes a flexible roadmap and timeline to take into consideration any forks in the road that require contemplation or navigation.

There are a number of resources available to provide education on family governance, including books, articles, family business education programs, and associations. The chart on the right outlines the primary causes of failures in successfully transitioning wealth based on research from the Williams Group.



- 60% Breakdown of trust and communication within the family
- 25% Failure to prepare heirs
- 15% All other causes: poor professional advice, economic downturns, etc.

Source: The Williams Group

## The Role of Family Governance

Family governance will depend on the size, generation and complexity of the family. For G1/G2 adult family members, governance may start with more informal meetings with discussions covering a combination of family and business matters. A general rule of thumb is that the larger the family is from a generational perspective, the more structural elements and formality are required to keep the family organized. The forums are family meetings, with larger families typically creating a governing body called a family council (members assigned or elected) working in the best interests of the larger family assembly (all family members). Some of the goals of family governance are as follows:

- > Family cohesion
- > Family learning and development
- > Family skills development
- > Strengthen/repair family relationships
- > Plan *with* the family rather than *for* the family
- > Providing a voice to all family members
- > Differentiate the three circles
- > Build potential for strong next generation ownership
- > Help individuals and family units achieve goals and fulfillment in a harmonious growth-oriented culture
- > Vision and mission shared with all family members: each person's goals dovetail into the greater vision
- > To facilitate continuity – empowerment for the next generations

Family governance is an evolving, continuous process that requires regular reviews, organization, and adjustments to propel the family forward and maintain an awareness of risk management. Below are the key areas that may be beneficial for consideration:



## In Conclusion

The unique situation of each family would benefit from careful planning and process development through a governance framework and roadmap. This is an appropriate starting point to ensure the family and enterprise are well connected. Integration and coordination with other facets of the enterprise is essential, along with the guidance of the family's advisors.



### Let's connect

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Shelley Forsythe provides clients, families, and enterprises with strategic guidance across personal, financial, family, and enterprise goals. Shelley takes an in-depth approach to gain insight into each client's overall goals and intentions to customize intergenerational options and frameworks. She specializes in facilitating family governance and legacy conversations to promote education, harmony and effective communication across generations.