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COMMITTEE REPORT: ULTRA-HIGH-NET-WORTH FAMILIES & FAMILY OFFICES

By Kirby Rosplock

The Four-Circle Governance Model

A conceptual decision-making framework

The challenges of perpetuating wealth and enterprise across generations—with the breakdown of governance as a key factor—are well researched and documented.¹ To better understand the true role of governance in the family system, look to the definition that originates from the Latin verb “gubernare,” which means to steer or to direct.² Families who desire their family wealth or enterprise to endure often grapple with how best to steer the enterprise in a way that perpetuates multi-generational longevity, especially during key transitions and periods of succession. Yet many different forms of governance impact the family system, each requiring different strategies and skillsets. From corporate governance or how businesses are controlled and directed, to trust governance, the legal guidance or dispositive provisions embedded within a trust, to estate planning, the broad term for determining how one’s assets and interests will be managed and distributed after one’s death or incapacitation, governance is all about how organizations get to making a decision.

Family Governance Pyramid

In the family business and family office realms, there’s an emphasis on governance structures and policies—think family constitutions, charters and policies.³ Patricia M. Angus, an attorney and leading family wealth advisor, educator and thought leader, created the Family Governance Pyramid, which provides a theoretical hierarchy of how a family’s

mission, vision and values drive its structure, policies, charters and participation that lead to how a family brings to practice its governance through family meetings.⁴ See “Family Governance Pyramid,” p. 49.

This framework is indispensable from a theoretical perspective yet doesn’t provide guidance of how the actual decision-making process should take form.

The need for guidance is apparent when asking what the term “governance” evokes when you hear it. The multitudinous responses indicate just how different the perspectives are depending on the respondent’s role, exposure and involvement in the decision-making process. During a presentation for advisors focused on governance and wealth continuity in Texas, a group of 75 wealth management professionals were asked to identify the key words they most associate with governance, which were then put into a word cloud. See “Governance Word Cloud,” p. 49.

Trust, control, structure, legacy and conflict all share center stage of the response. Yet notably, one of the lesser emphasized words in the word cloud is “process” or how parties arrive at a decision and the different roles that individuals play in deciding. This article presents a conceptual framework, the Four-Circle Governance Model (Four-Circle Model) as a new overlay for decision making that emphasizes the importance of the parties and process to arrive at a decision. The Four-Circle Model calls out four distinct key parties to engage when making a decision. Those parties are individuals who: (1) have authority over a decision, (2) have the responsibility to execute a decision, (3) need to opine on a decision before it’s made, and (4) are stakeholders who may need to be aware of the decision. See “Four-Circle Model,” p. 50.



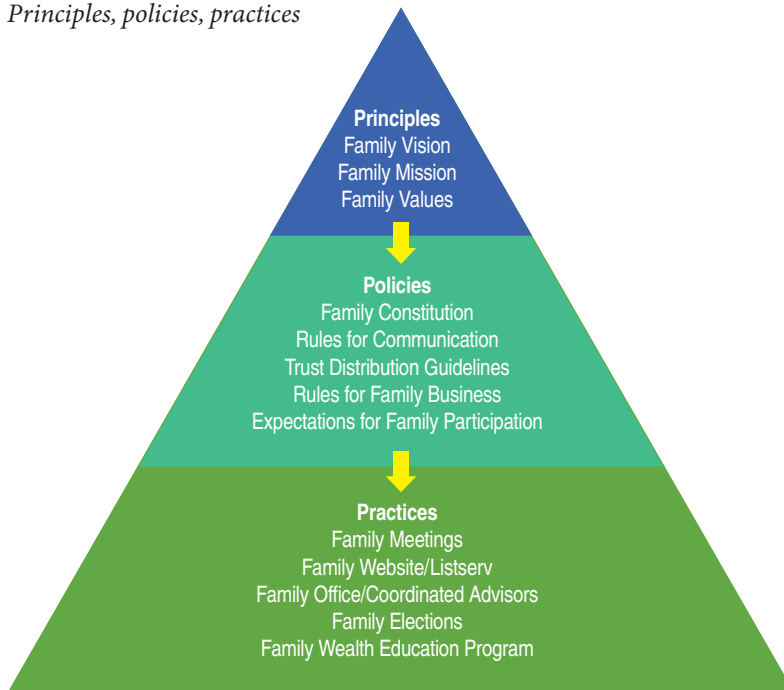
Kirby Rosplock is founder and CEO of Tamarind Partners in Boca Raton, Fla.



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Family Governance Pyramid

Principles, policies, practices



— Patricia M. Angus

Timely Topic

Why is the topic of governance so top-of-mind today? According to a recent *New York Times* article, approximately 73 million Baby Boomers between the ages of 60 and 80 are retiring and passing on wealth, assets and business ownership to their heirs.⁵ Specifically the article cites that:

In 1989, total family wealth in the United States was about \$38 trillion, adjusted for inflation. By 2022, that wealth had more than tripled, reaching \$140 trillion. Of the \$84 trillion projected to be passed down from older Americans to millennial and Gen X heirs through 2045, \$16 trillion will be transferred within the next decade.⁶

Governance Word Cloud

Trust, control, structure, legacy and conflict share center stage



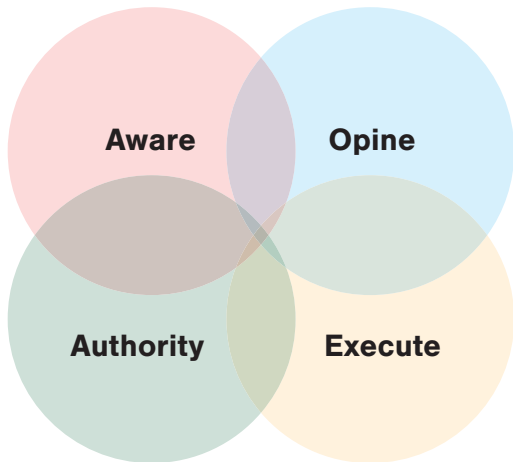
— Tamarind Partners

Further, recent PWC research found that less than one-fourth of family businesses in the United States have neither conflict resolution mechanisms (22%) nor a shared family capital strategy (19%).⁷ A study of family offices found that less than half (42%) of families used a governance framework or had a wealth succession plan for the family members despite 63% indicating that the family office's main purpose is to support generational transfer of wealth.⁸ In fact, the report calls out, "There's a mismatch between family offices' top



Four-Circle Model

Roles connected to the decision-making process



— Tamarind Partners

stated purpose of wealth transfer and the processes, governance and risk management in place to ensure that.”⁹ With the current wealth and business transfers occurring in real-time, preparing families to be empowered with actionable governance strategies is critical to continuity and long-range strategic planning.

Particularly with decisions in which there are many different pathways that could be taken, the Socratic method can be useful to whittle down the most compelling arguments.

Leading family governance advisor, Barbara R. Hauser, has been a long-time advocate for using the Socratic method to elicit feedback from family members to understand their goals and where their commitment lies.¹⁰ Family members play key roles in

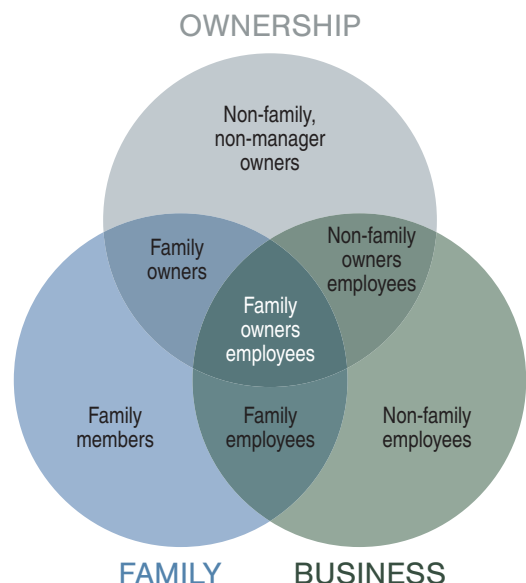
a decision, and many in the field have relied on the “Three-Circle Model of Family Business Systems” (Three-Circle Model) to classify key individuals within the family, ownership and management to appreciate their roles and interactions. See “Three-Circle Model,” this page.

The Three-Circle Model, established more than 40 years ago by Renato Tagiuri and John Davis, has been a pivotal reference point for families, owners, management and stakeholders within a family firm to reflect on where they’re positioned with respect to the issue at hand. The overlapping circles provide layers of complexity for non-family, non-manager owners, to non-family employees, to family members.¹¹

Building on the governance process that had its foundations laid by the thought leadership of Tagiuri and Davis, James E. Hughes, Jr., John L. Ward, Dennis T. Jaffe, Patricia M. Angus, Barbara R. Hauser, Kathryn McCarthy, Fred Neubauer and Alden G. Lank, among many others, this Four-Circle conceptual model hopes to advance governance strategy and process more broadly at the board,

Three-Circle Model

Family business system



— Renato Tagiuri & John Davis



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investment, trust, operating business, family office and corporate levels.

By virtue of the complex wealth and business interests that ultra-high-net-worth individuals have amassed, the decision-making process for those assets may also need to evolve. This burgeoning model is an extension to the field of work that has come before, namely the “Dialectics Decision-Making Process” (DDM).

Critical to any decision is recognizing that the aware circle has the greatest ability to railroad a decision if this group of stakeholders isn’t thoughtfully engaged at the right time of the process.

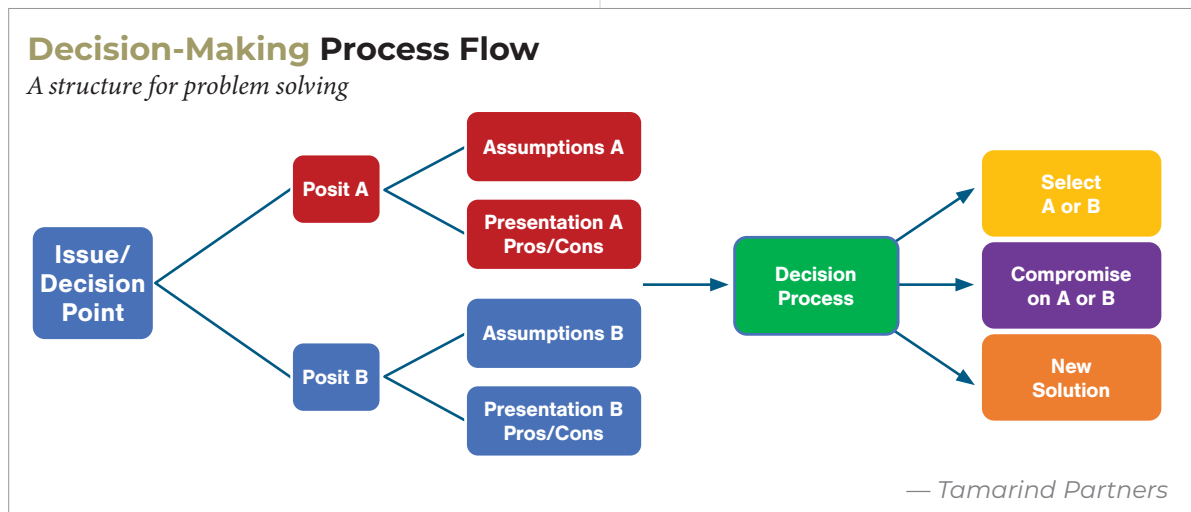
DDM

The DDM, also known as the Socratic method, is rooted in the works of the great philosophers, Socrates and Plato. This form of reasoning has been applied

universally to problem solving and is integrated across many disciplines including law, business, philosophy and government. It involves engaging stakeholders to ask thoughtful questions to participate in a debate or discussion to elicit critical thinking and draw out ideas and underlying assumptions. Particularly in decisions in which there are many different pathways that could be taken, the Socratic method can be useful to whittle down the most compelling arguments. See “Decision-Making Process Flow,” this page.

Imperative to the success of DDM is that the parties are clear about their roles, and how and when they’re to participate, and have a shared aim of arriving at the best decision in the stakeholder’s interest. The Four-Circle Model attempts to clarify and further specify the proper parties to engage at the right points in time in the process. With typical governance, engaging the right parties at the right times is a major assumption that doesn’t always prove true. Below are the roles, responsibilities and influence of the different individuals in their different “circles” and how the Four-Circle Model provides a checks-and-balances function.

Aware circle. Many different types of stakeholders fall in the aware circle, as well as the parties who have an interest in being aware of how and if the decision may impact them. For example, consider a situation in which a family, through their family office, is contemplating constructing an office building as a new business interest. Those who





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need to be made aware extend well beyond simply the family who's committing the capital to build and invest in the building. Many stakeholders may be in the aware circle, such as possible co-investors, debtholders and banks that might be part of its financing. Consider the neighboring businesses in the vicinity of the new construction, or the city's leadership, such as the mayor, city council or county board. What about other local authorities, transportation and utilities (for example, power, water, sewage)? Consider other organizations such as nonprofits, non-governmental organizations or activist groups such as environmental or urban planning groups that may be for or oppose the new building project. Thus, there are many stakeholders who, on some level, may have an interest in or a right to know about what's occurring with that decision. Some of these parties may also fall into the opine circle as well as being aware of the building project's

status. Critical to any decision is recognizing that the aware circle has the greatest ability to railroad a decision if this group of stakeholders isn't thoughtfully engaged at the right time of the process. Specifically, it's important to have a strong, evidence-based business case with the associated research on the impact of a decision on the various stakeholders well in advance of a decision as well as demonstrating that their interests were considered to when making the decision.

Strong governance is predicated on trust, communication, strategy and educating and engaging the appropriate parties at different junctures in the decision-making process.

With respect to family owners and stakeholders, there may be family members who only fall into the aware circle while others may fall into multiple circles (for example, board members, investment committee members and executive team members). Although passive family owners may not have a right to vote on a decision, there may be important other organizing mechanisms such as a family council or family assembly, in which they can express their opinion and provide feedback to those with authority to make a decision.

Opine circle. The opine circle is reserved for those who may need to provide an expert opinion, advice, tacit experience or knowledge to help those who are deliberating to make the most informed decision. Back to the building construction example, consider if those making the decision weren't aware of a new city ordinance for building in that part of town. Their project may require a new survey done with the local surveyor team to opine and advise how/if this might impact on the original design or plan for the building. Allowing key individuals who have



SPOT LIGHT

Pixelated

As close as I can get by Jim Hodges sold for \$69,850 at Phillips 20th Century & Contemporary Art Day Sale, Afternoon Session on May 16, 2023 in New York City. A New York-based installation artist, Hodges is known for his mixed-media sculptures and collages. For example, the work featured here is composed of pantone color chips with adhesive tape.



outside, unbiased experience or expertise to weigh in can be extremely helpful. This is an important check and balance to the DDM model that isn't explicit.

Another scenario to consider is a family office or family business board that includes outside parties who are from similar types of enterprising families who, for example, have already experienced the transition, succession or planning event that the family is facing for the first time. There's tremendous wisdom that third-party individuals can impart on those who are navigating a new problem or issue for the first time. Regardless of if they have authority or a vote, the role of independent parties with experience and expertise are a fundamental risk management mechanism to inform decisions.

Authority circle. The authority circle refers to the actual individuals who have the authority to make the final decision. The underlying structure of the organization's legal documents often provides the structure for how a decision is made. Many governing structures, such as a board of directors, investment committee, distribution committee or board of executive committee are examples of governance structures that have authority to make decisions for the benefit of their organization, shareholder or beneficiary. Different governance structures have different rules or legal governance terms. For example, a unanimous decision requires that all parties must agree; a supermajority decision, also known as a qualifying decision, requires that more than a majority, typically 60% to 75% of votes, agree. The most common is for a majority vote, or more than 50%, to agree to arrive at an answer. Typically, boards are comprised of odd numbers to help tip the scales and not end in a deadlock vote. Of course, there are circumstances in which only one individual may have the authority. Consider a sole trustee situation in which the trustee has the sole responsibility to make a major decision for one or more beneficiaries of a trust. Understanding the legal terms of the governance structure is also critical to understanding how the alignment of interests must fall to achieve the decision.

Execute circle. The execute circle is comprised of management, senior leadership and operators who are responsible for carrying out the decision once it's been reached. In a family office or family

business, owners may be involved at the senior level for decision making; however, they may or may not be involved at the management and operations levels to carry forth the decision. Consider the proposed building project in the earlier example. The board may arrive at the decision to go through with building, but senior management may or may not be included on the board. The members of the execute circle are the "doers," responsible for the actions to accomplish a decision made by the board.

The Four-Circle Model helps establish the different roles and capacity that each play in moving through the DDM process. "Applying Decision-Making Process to Governance," p. 54, identifies each party and where they're key to the steps to reach a decision.



SPOT LIGHT

La Vie en Rose

Study for Ophelia #26 by Robert Longo sold for \$40,640 at Phillips 20th Century & Contemporary Art Day Sale, Afternoon Session on May 16, 2023 in New York City. Longo became prominent in the 1980s for his *Men in the Cities* black and white drawing and print series, which depicts sharply dressed men and women writhing in contorted positions.



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Clarification of Roles

Strong governance is predicated on trust, communication, strategy and educating and engaging the appropriate parties at different junctures in the decision-making process. The Four-Circle Model expands the traditional decision-making logic and further clarifies the importance of the different roles, responsibilities and actions that different parties to a decision must take for a successful outcome. Engaging the appropriate parties at different phases can act as a risk management strategy to support effective and efficient decisions in a family office, investment committee or family council as it ensures that the right parties are aware of, involved in and understand the process to ensure that the highest quality decision is reached. 🌐

Endnotes

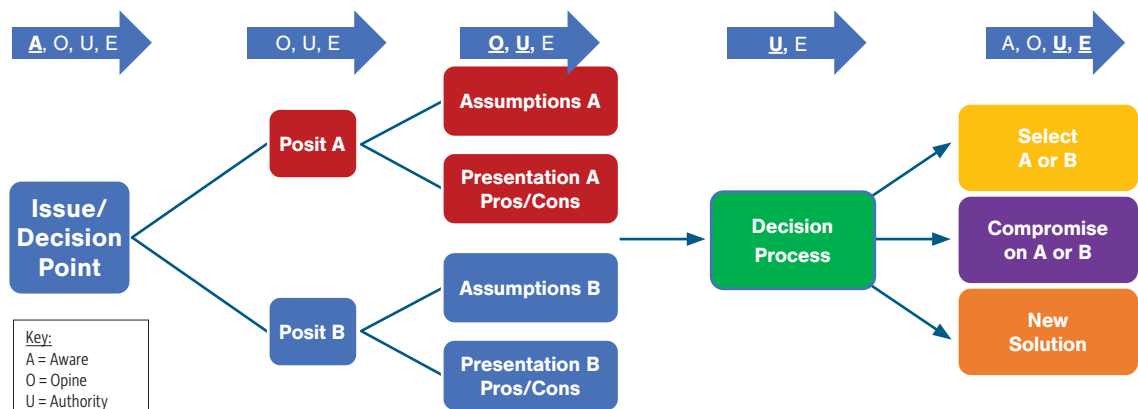
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Applying Decision-Making Process to Governance

Establish different roles for each family member

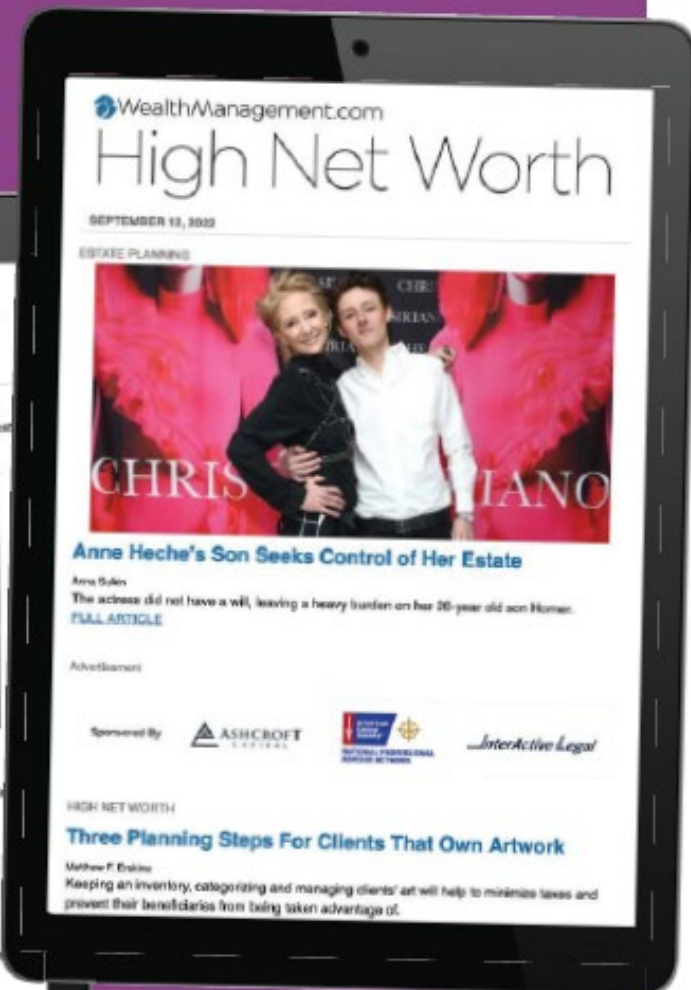
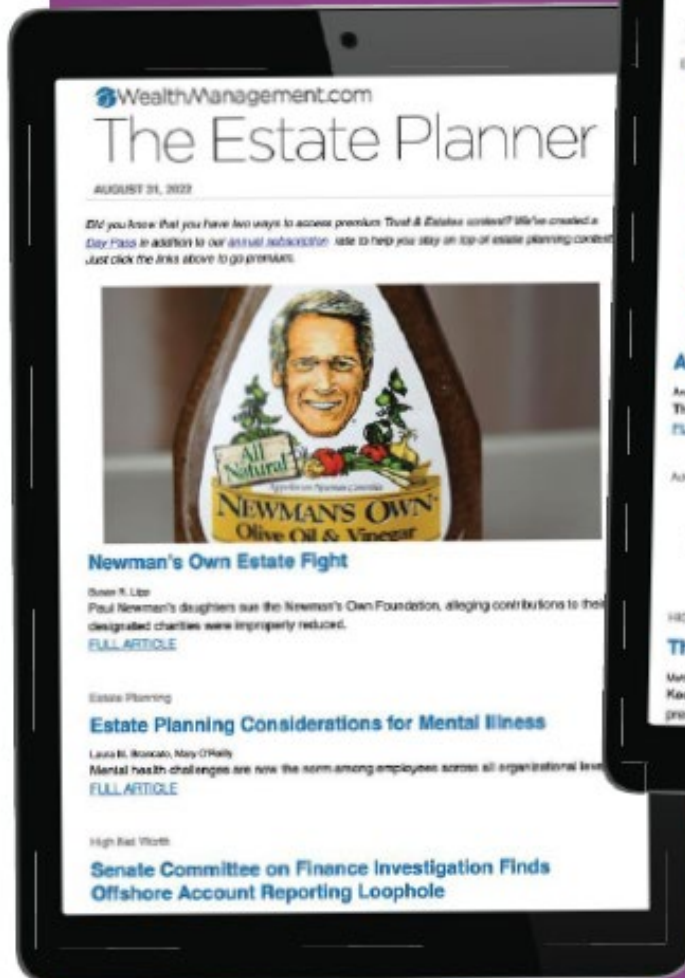


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