CHAPTER 11

Governance Issues for the Family Office

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In this chapter we address the importance of "governance" in two contexts. First, we examine the importance of governance in the family office itself, an often-neglected topic. Second, we describe the features of good governance for the family.

Why is governance so important? By having a good awareness of the benefits of good governance, the family office can play a very important role in keeping the family cohesive, which is certainly a great goal for the long-term continuation of the family (and also for the family office). This cohesiveness emerges from carefully designing the decision-making procedures that will be followed by the family and by the family office. Today these topics fall into the category of family governance, which is explored in more detail in this chapter.

In the same way that countries have their own systems of governance, so do families. Some are more successful than others (e.g., dictators risk being overturned, whereas elections and constitutions typically are respected by those who created them). The best family offices are proactive and have good governance procedures and decision-making processes that help the family function well. During an interview for this book on the role of governance and the family office, Jay Hughes shared, "The great political philosophers understood that politics is only about joint decision-making. That's all it is.

That's why Aristotle said the foundation of any government is the family bricks in the bottom of that foundation. Are they functioning? Are they making joint decisions together?"

This chapter covers those governance procedures applied to the family office, and to the family itself.

Governance Issues for the Family Office Itself

Most traditional family offices focus much more on how they oversee financial investments than they do on running the office as a business that follows best practices in corporate governance. This would include the hallmarks of good corporate governance: transparency and accountability. (See the model OECD corporate governance principles.[1])

A lot depends on the stage of the family office and of the family. The governance issues for a new office with a relatively small family in its first generation of wealth management are not as complex as for an established office that serves multiple generations of the family. For example, key wealth decision makers in a first-generation family are typically the matriarch and/or patriarch. When families with multigenerational wealth evolve to the second generation of decision makers, the family tree may have expanded to a group of siblings.

As the family office becomes accountable to a larger group who may not have the same interests, the complexities of giving voice and having decision-making authority increase. This highlights the need to have good policies in place—to avoid ad hoc decisions or preferences that can create tension, resentment, and animosity among family members.

Benefits of a Good Board

The standard mark of good governance in any business is the quality and involvement of its board. A study found that fewer than half of families with a family office have advisory boards or boards of directors in the family office (48 percent).[2] And even fewer family offices have an effective (or independent) board that has regular meetings.

At the outset, the family should spend time to clarify their goals and expectations for the family office. The family should be able to explain their priorities to the family office. This will help the family office to carry out the goals of the family.

A study by the Family Office Exchange concluded that not only are good boards for family offices important, they are indispensable:

> Serving as an accountability checkpoint, boards can assure that structures are established to help uncover risks and, once detected, have policies that help to mitigate exposure. Consequently, the board in its governing capacity plays a significant role in preserving family wealth and sustainability.[3]

The board is also critical in legal terms. The board is responsible for the overall management and direction of any company. Some say the global financial crisis that began in 2008 was due to lack of attention and oversight by the boards of financial institutions.

In the family office, the board can be helpful in areas that are like those in other businesses. We can learn from the extensive work that has been done on a global level and apply them to the family office.

For example, in the Organization of Economic Co-operation and Development (OECD) model principles of corporate governance, the board should be responsible for eight key functions:

1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions, and divestitures
2. Monitoring the effectiveness of the company's governance practices and making changes as needed
3. Selecting, compensating, monitoring, and, when necessary, replacing key executives and overseeing succession planning
4. Aligning key executive and board remuneration with the long-term interests of the company and its shareholders
5. Ensuring a formal and transparent board nomination and election process
6. Monitoring and managing potential conflicts of interest of management, board members, and shareholders, including misuse of corporate assets and abuse in related party transactions
7. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place—in particular, systems for risk management, financial, and operational control, and compliance with the law and relevant standards
8. Overseeing the process of disclosure and communications

Although it is unlikely that family offices are this structured, the OECD principles can serve as an aspirational goal to be a well-run office. We have seen an immediate improvement in the professionalization of a family office when there is a board to whom the management reports on a regular basis.

As mentioned above, one critical function of the board is to hire and fire the CEO. In many traditional family offices, however, the CEO role has quietly evolved from a professional advisor relationship with the senior members of the family, rather than from any oversight and election by a board. It becomes quite difficult to confront the CEO and suggest changes much less to ask the CEO to leave.

A proper board (to use the British adjective) is elected by the owners of the family office (see Chapter 5 on the various legal structures of a family office). Their terms and duties are spelled out in the relevant corporate documents (such as in the by-laws). Many families prefer to have an odd number of board members to prevent stalemates during voting. For a single-family office (SFO), the right number in our experience seems to be between five and seven board members. The board should meet at least quarterly, with written agendas and written minutes. When the family office is fairly new, and the family consists of first generation, the board function can be simplified, but we recommend following the model of quarterly board meetings to instill a regularity, which can become more complex as the family becomes more complex.

Importance of Independent Directors

Again, looking at public (listed) companies for guidance, it is clearly a best practice in corporate governance to have independent directors. Professor John Ward, a leading family business researcher, author, consultant, and educator, recommends a minimum of three independent directors for family businesses. However, in our experience few family offices are ready to include so many outsiders in their private financial business.

Research shows that most family office boards are composed of family members (on average, four) with only one outside non-family board member.[4] It should be a goal to add non-family board members over time. In choosing an independent director, the office and family should look for someone who is familiar with the family office world.

The family office is a unique environment, and a candidate for a director might not appreciate that factor. For example, one family added a seasoned independent director who immediately focused on loss assets, such as the yacht. He thought it would be an obvious decision to get rid of it, not appreciating the meaning it had to various family members.

Interim Stage of Advisory Board

For those family offices that hesitate to share family financial information with outsiders, an interim step can be to create an advisory board for the family office. Candidates are likely to be pleased and flattered to join as advisory board members. If chosen well, their advice and oversight could add a very positive and professional level of management for the family office. An advisory board can prepare the family to establish a proper board in the future. They can use the advisory board as a first step to having an active board and see how comfortable they are (or are not) in sharing certain information and in receiving helpful input by the board.

Accountability to the Family

Often the family office management grows into its position in a gradual way, beginning as professional advisors to the senior family members. It is common for those senior family members to prefer not to share much financial information with younger family members. Their long-term advisors generally follow those preferences. Over time, though, this is not a successful governance practice. The crucial hallmark of transparency needs to be honored. Good governance includes much more financial accountability to all of the family members. Sheltering family members from the responsibilities of wealth ownership disempowers them to be engaged and accountable for their actions. In order for families to be successful with building strong stewards of the wealth, creating an expectation, a process, and opportunities for family members to grow into their responsibilities is a function of prudent family governance.

Participation in Long-Term Strategy

As mentioned previously, a primary responsibility of a good board is to set the long-term strategy of the office. The board can only try to do this if the family has shared their vision and mission.

Engaging in the strategic planning process is a multipronged approach. It requires a clear understanding of the current state of the family, which is discussed in Chapter 6. Further, it requires an understanding of where the family desires to be not just one year or five years in the future, but in two or three generations. Conducting a visioning exercise as described in Chapter 4 may be a helpful exercise to inform the board about the long-term strategy of the family office. By understanding where the family desires to be two or three generations out, the family office can begin to develop a long-range strategic plan that provides a general roadmap to get there.

Next Generation Issues to Address

The next generation in wealthy families is a category that receives a lot of current attention. A family office study finds that a third (36 percent) have management roles within the family or sit on the board (25 percent).[5] Timing wise, 28 percent of next-generation family members are involved and taking over control of their family's wealth with North America and Europe ahead of emerging markets and Asia-Pacific.[6] For the senior generation, the concerns are generally whether or not the next generation is well equipped to control and take responsibility for the wealth. All wealthy families are concerned about falling prey to the global proverb of "shirtsleeves to shirtsleeves in three generations."

The board could examine the alternatives for strengthening and supporting the next generation. There are many outside educational programs, including those offered by financial institutions. See Chapter 12 for a broader discussion of developing the next generation of wealth stewards. The board may also support the concept of having the office create a tailored educational series for the next generation. For example, one family has been training the next generation to become trustees in the future. In the process, they are learning more about how trusts work and the different roles of the trustees and the beneficiaries. Families have a complex challenge to prepare and empower, yet also provide opportunities for future family members to find their own way. They need to be informed, but also independent of the prior generation.

Another great learning opportunity for the next generation is to become involved in the family's charitable activities. Often there is a charitable foundation created by the family and administered by the family office. One family hired a consultant to develop a plan for gradual involvement by the next generation based on their talents, interests, and available time. Philanthropy and involvement with shared family giving is an important opportunity for family members to engage in decision-making for the family. Chapter 14 provides a broader discussion of the power of philanthropy, legacy, and impact investing.

Succession Planning for the Family Office and Its Executives

Another governance issue is to be sure that there is a succession plan for the executives in the family office as well as a succession plan for the family office. These are topics that are often not addressed by the family office, in part due to how the current management evolved into their positions and/or how family owners are engaged and involved with the business management of the family office. Again, the board may bring up this topic and oversee the planning.

Succession planning is one of the most challenging transitions in a family office and may be why only about half (54 percent) have a written succession plan for their family office according to a Campden UBS family office research study.[7] Succession planning in the family office is challenging for several reasons. First, it requires one generation of leaders to recognize their own mortality. For many first-generation wealth creators, the owning and operating of their family office is closely knitted to their personal identity and to the pride of what they have created for themselves and their offspring. The reality of stepping away from what they have worked so hard to create and relinquishing control, authority, and oversight for the family wealth and the office can deal a significant blow to their perceived stature and role in the family.

Second, family owners and leaders may be challenged by envisioning and/or identifying who will assume that role and how/if this new generation of leaders will make decisions. Will or have they learned from their predecessor and will they carry on the mantle of the prior leadership, or will they embark on a new pathway to govern the family office?

Third, transitions are not simply a one-time event. Rather, there is typically a series of transition steps in preparing and grooming a leader to come into a role and an incumbent to wind down and transition responsibilities, so that the governance structure shifts and adjusts for the new circumstances. Transitions may take several years for family offices that engage in the planning process in advance of the actual succession. In many family offices, there may be an overlap of leadership between the retiring executive and the incoming family office executive, which can create an entirely new dynamic as the baton is passed. Yet in far too many cases, families have been forced to deal with the challenging, stressful, and daunting task of on-the-fly transitions. These transitions are sudden, and families typically are surprised by and unprepared for them.

One study suggests that the majority of family offices (7 out of 10) are led by a family member.[8] Why do so many family members end up as the CEO or president of their family office? For the first-generation wealth creators, the family office typically becomes the new family enterprise for them to chair and lead. The assets they have generated through the sale of a business, an executive retirement package, or other windfall often consumes their energy to manage and oversee. For subsequent generations who are inheritors or beneficiaries of wealth, a deep sense of responsibility and stewardship often influences their career path to assume a leadership position. Yet not all families have a family leader who is equipped and ready to assume the leadership mantle. Further, some families determine that an outside family office executive is preferred as they are independent of the family and may provide

an objective perspective for the family. In either of these scenarios, there is not one way that is better or worse, rather just different.

After interviewing several family office executives, mostly family and certainly a number of non-family leaders, some themes around succession in the family office executive began to emerge.

First, family offices that appear to weather the succession the best are those, not surprisingly, who accept and anticipate leadership change as a normal course of business. In other words, they have built into the strategic planning process the expectation that all individuals in a leadership capacity (President/CEO, board, family council, etc.) must engage in planning how they will prepare the family office when their tenure comes to a close. This mindset naturally informs the overall strategic plan and the family ethos as a whole. Thus, the family creates an expectation that the wisdom, experience, and values of the leadership directly inform those of the incoming successor. Like weaving a tightly knotted carpet, there is no break or interruption to the family office operations as one leader segues into the role and the other transitions out.

Second, interviews reveal that many family offices transition the president/CEO to a chairman of the board role in order to retain their counsel, wisdom, and advice in the coming year or so. Depending on the age, experience, and abilities of the incoming leader, the predecessor may also mentor and/or advise their successor. Although there is a clear transition, these successful mentors do not lead for the successor; rather, they become a sounding board and provide advice and wisdom to help inform the decisions made by the successor. Allowing the new leadership to grow into and build confidence in the role is critical to their long-term success. Further, it helps establish them as the new visible leader to the family and other family office executives.

Third, family offices should always have a contingency leadership plan. The Coronavirus Pandemic of 2020 only heightened families' awareness for how unpredictable and rapid change may take place. A contingency plan outlines what steps to follow in the rare circumstance where a family office executive becomes incapacitated. The plan is typically developed in conjunction with key family owners and senior family office executives and is shared with family stakeholders. An interesting phenomenon was observed with a private group of family office executives in the Midwest. For sudden, unexpected situations where a family office leader was incapacitated and/or passed away, the other family office executives would step in and assist the individual family office in leadership transition. They might assist with the day-to-day operations during this interim, as well as help the family with the executive search process to replace and/or aid in the grooming and mentoring of the incoming family office executive to assume this role. Family offices coming to the aid of other

family offices during a difficult time was a rewarding discovery and illustrates how family offices can work collaboratively and collegially.

Although there are stories of senior family office leaders who are hesitant to give up their post for fear that their offspring are not capable to lead the family office, not adequately groomed, or worse yet, not competent to lead, other families immediately recognize that the succeeding generation has not demonstrated a genuine interest or ability or reached an age and/or skill set to be tracked for a leadership role in the family office.

For these families, identifying a bridging non-family office executive increasingly becomes the preferred path. After several interviews with non-family executives, one clear and distinct observation is the level of objective professionalism and profound wisdom that a well-seasoned, non-family member executive can bring to a family's family office. Bringing their experience and wisdom from the best practices of other family offices, these individuals can elevate the sophistication with which the family office is managed and operated. This is not to say that a family member may not bring these same qualities, but the non-family office professionals who have dedicated themselves to a family office track often demonstrate a keen awareness, sensitivity, and pragmatism to the stewardship of the family's wealth.

Governance for the Family Itself

Although governance is often associated with corporate structures and management, there is also the governance that exists unique to each family. This section discusses the nature of a family's decision-making process, what the hallmarks of a strong governance process are, what the benefits of good governance are, and how to develop your family's governance system. The latter portion of this section identifies important constructs, such as the role of a family council and a family constitution, as tools to foster and promote positive family decision-making.

Dennis Jaffe, in his book, *Borrowed from Your Grandchildren: The Evolution of 100-Year Family Enterprises,* finds that participatory governance is key to keeping the family together:

> [B]y the second or third generation, the culture shifts to become more transparent, open and collaborative. This entails having clear policies, practices and organization to set goals, define leadership, make decisions and hold people accountable. The family culture shifts from family to business first, a more professional orientation to business and investment, and also toward transparency and collaboration.[9]

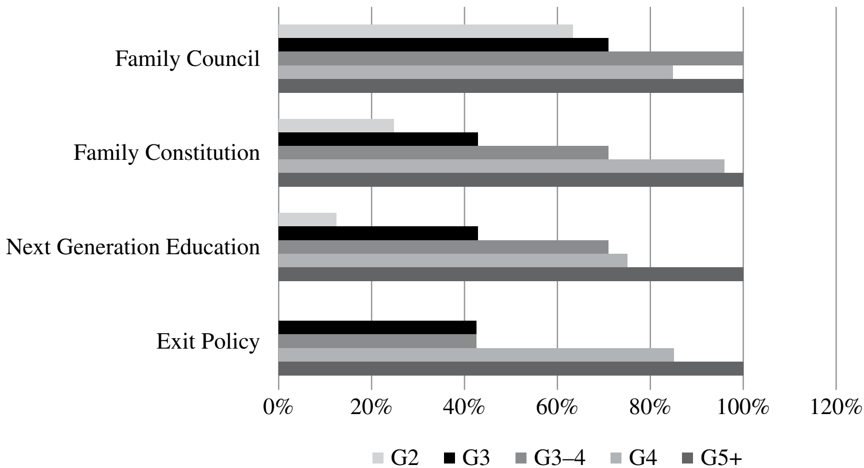
Jaffe's research on the role of governance practices in intergenerational success revealed that governance systems and other best practices were increasingly adopted and vital with each succeeding generation. For example, whereas only 13 percent of second-generation families engaged in next-generation education, 71 percent of the third-generation and all five-generation plus families did so. (See Table 11.1 and Figure 11.1.)

TABLE 11.1 Family Practices by Generation

Practice Generation	G2	G3	G3-4	G4	G5+
Family Governance					
Family Council	63%	71%	100%	85%	100%
Family Constitution	25	43	71	96	100
Next Generation Education	13	43	71	75	100
Exit Policy	0	43	43	85	100
Enterprise Practices					
Independent Board	25	71	85	96	100
Nonfamily CEO	25	28	43	25	100

Source: Dennis T. Jaffe, *Borrowed From Your Grandchildren: The Evolution of 100-Year Family Enterprises*. Copyright © 2020 John Wiley & Sons, Inc. Reprinted with permission of John Wiley & Sons, Inc.

FIGURE 11.1 Evolving Family Governance Practices Over Generations



Source: Dennis T. Jaffe, *Borrowed From Your Grandchildren: The Evolution of 100-Year Family Enterprises*. Copyright © 2020 John Wiley & Sons, Inc. Reprinted with permission of John Wiley & Sons, Inc.

Analysis of Existing Decision-Making Process

Every family has developed a way it makes decisions. Some families prefer a more informal, casual style of decision-making, while other families prefer to articulate, document, and follow a stricter process for making decisions. Neither way is better or worse; rather, different styles may be better for different families. With that said, as families become larger and more complex with additional family members, it can be helpful to formalize information sharing and the process for decision-making purely from an administrative perspective.

A recent Campden UBS research study found that almost half (47 percent) of family respondents said the next generation was currently either somewhat (29 percent) or very (18 percent) unprepared for future succession, suggesting that additional education and onboarding was needed.[10] However, the study also reflected that many were in the midst of a generational transition, as 28 percent of respondents of the Next Generation took control of the family wealth within the last 10 years, and 37 percent are expected to take control within the next 10 years. The study also found that 36 percent are already in executive or management positions within the family office and 25 percent sit on boards.[11] Because of the uncertainty for the next generation to take the reins for the wealth, decision-making more often resides with the more senior generation. Unsure if adult children are truly prepared, grantors may hold off passing along wealth until children are well on into their adult life.

In first-generation families, parents typically are the primary decision makers; however, in the second generations and beyond, the leadership within the family may vary considerably. In some families, the oldest son is given the right and the resources to lead the sibling group, a system commonly known as primogeniture.

However, research indicates this practice may be antiquated, as most parents (mothers, 95 percent, and fathers, 97 percent) prefer to distribute wealth to their children equally.[12] With this in mind, sibling inheritors will have to develop an understanding and process for involvement, with information sharing as well as decision-making with the other siblings. Ivan Lansberg, a family business expert, refers to the second generation of leadership as a *sibling partnership*, as the sibling group typically must work closely together to make decisions as a unit.[13]

From the second to third generation of wealth ownership, the governance in the family grows in complexity, moving into what Lansberg refers to as a *cousin consortium*. The decision-making may now be spread across a series of cousins from various branches of a family. Communication,

information exchange, and a clearly articulated process of governance become key elements. Informal decision-making at the first-generation wealth/business owner phase is commonplace; however, it does not typically work as well in second and later generation families. Instead, a formal process from the leadership in the family is critical to engage, involve, and create a sense of belonging among family members.

Edouard Thijssen, a third-generation member of a Belgian business-owning family, identifies firsthand with these issues. In Thijssen's family, ownership had been divided and transferred across numerous cousins representing different amounts of ownership in the portfolio of companies owned by the family. Seeing the challenges of managing all these complex relationships in his own family, Thijssen conceived of and built a virtual information hub for sharing information online among his family members. This platform helped his family to bridge the distances between family members and to access and centralize information that helped to streamline some of the family's operations and governance around its wealth. His company, TrustedFamily, provides a secure online portal for families in business and their family offices. Thijssen offered the following:

When family is spread out all over the world in different countries and cities, it is difficult to always meet in-person. His virtual platform allows families to connect around the issues they share as a family and selectively dialogue on specific agenda items. For example, the family council, family board, the family foundation, or the family assembly are able to share information to its select members.

Here, the family office and family share a common mission to gather, store, and make available key information for all family members so that key strategic and administrative discussions can be had at any time, from any location.[14]

Since the pandemic of 2020, virtual infrastructure to support governance is key and having access information and storing it in a digital vault or cloud-based site is paramount. The section that follows expands further on transparency, accountability, and family member participation as hallmarks of good governance.

Hallmarks of Good Governance: Transparency, Accountability, and Participation

At the public company level, the two key hallmarks of good governance are transparency and accountability. In a family setting, however, it seems crucial to add a third: participation. In order to keep the family together for a long

time in the future, it is really important to always involve at least two generations in creating their governance system.

As in most fields, it has been an often-painful lesson that top-down planning does not produce lasting effects. Many families have constitutions or other series of rules (e.g., protocols, charters, mission statements, value statements, etc.); however, when the younger family members do not participate in their creation, they have no strong loyalty to adopt them.

Benefits of the Family Creating Its Own Governance Process and Structure

Just as participation by younger family members is critically important, so is the overall process of having the family create its own governance structure. When the governance (e.g., any decision-making process) is imposed by a patriarch, it is not likely to last after the patriarch is gone. The next generation did not participate in creating it, so they have no automatic loyalty to the system. In fact, if they have resented the way in which they have been consistently excluded from many decisions in the family, they may actively resent the system.

Just as top-down systems do not last well, so also do outside systems not last. This refers to a governance system that someone outside of the family writes for the family. Unfortunately, many families have hired outside advisors to create a governance system for them. (After we speak about family constitutions, for example, it is common that someone will ask if a consultant can write one for them. The answer is yes, they can write them; but it will not provide the same experience or the same output as engaging the family in this process would. Thus, it is recommended that the content is best to come from family while utilizing an outsource facilitator or consultant to guide the process.)

The fatal flaw in a constitution written by an outside advisor is that the provisions are not connected to the family, so it has no real meaning to the family. The constitution is put in a drawer and the family continues as before. (One of our most valued feedback comments was from a family member who said, "When I read our new constitution, it sounds so familiar . . . it really is ours.")

The reason that good family governance is so important is that it can provide the cohesiveness needed if the family is to continue together for several generations. (If the family has no real interest in staying together, there is no need for a good governance system or for a family office.) Interestingly, by going through the process of creating a family constitution, the family is learning in a hands-on way how to work together and to make decisions together.

How to Create the Family Governance

How a family creates its own governance system is by following a process that has worked for many families and in many countries. Many families agree that they do need an outside advisor to guide and facilitate the process.

If a family member tries to play that role, the group dynamics are likely to interfere. For example, if the patriarch is the process leader, the family members likely have learned a behavior of not questioning his authority—with the result being that the rest of the family will not feel any particular loyalty to the decisions.

If any other family leader plays that role, the siblings are quite likely to resent him or her. Finally, the goal is for each family member to participate, and it is nearly impossible to lead a meeting or discussion and also participate in it. The roles are too different.

When looking for an outside advisor, an important factor is their experience with other wealthy multigenerational families. (Families have received proposals from large global corporate consulting firms whose core skill is corporate strategic planning with listed companies, but who say yes of course they could include family governance.)

The outside advisor will be able to present back to the family the objective description of how they are doing as a family in their current decision-making process. The experience with other families will be a great additional resource for the family. In some cases, the non-family family office executive or the family's estate planning attorney may be able to facilitate the family meeting. The preferences vary depending on the nature of the family and their most trusted advisors.

In the event of an outside consultant, the first step is for the outside advisor to have private interview sessions with each family member. This is to get a sense of the various issues that are circulating within the family, many of which are just not shared with other family members for a variety of reasons. Often the family member has had no one to talk with who has a background of understanding many similar families.

Those issues that seem to be more about very personal issues are set aside (in a similar way that the United States has a Bill of Rights, protecting personal areas that the state should respect and/or leave alone). The issues that involve the larger family are the important ones to evaluate.

Next, the outside advisor makes a written report of the issues that could be addressed. This is usually done without mentioning any names or criticisms, but which includes enough information to describe those issues. The

family reviews the report and decides with the outside advisor which of the issues to place on an agenda for a formal family meeting.

Family meetings are a critical component of the governance of a family. Some families attempt to pull together a family meeting during a vacation or a family gathering, such as a wedding or anniversary. However, most families interviewed with a long success track of family meetings identified that dedicating the time just for the family meeting was important. In a family office study most families host regular family meetings (84 percent).[15] Formal family meetings provide a forum for family members to discuss the business issues of the wealth in a structured and professional manner. Although most families had their very first family meeting around a kitchen table, as families evolve and more family members are added generation over generation, formalizing the family meeting can make the discussions more efficient, effective, and streamlined.

Family Councils

One of the first topics to be addressed at the formal family meetings is whether or not they want to create a family council. This depends in part on the number of family members and the number of branches in the family. At one extreme, a family with 400 living members in the Gulf region formed a family council of 12 representative members. Another family with five involved family members decided that they should all be on the family council, and it would be structured for the next generation when branch representation would begin.

Approximately half of family offices (44 percent) have a family council that meets about four times on average a year composed of six members.[16] The family council acts in a way that could be compared in countries to the role of Parliament, the Diet, Congress, and so on. On another level, it could be compared to the role that a board plays in a business. One word of advice when it comes to family council success is that the council has a clear role in the family decision-making process and an action associated with its presence. First, a family council has to be supported by the family when it comes to participation and membership. Setting up a governing body such as a family council just for the sake of having representation will not lead to a productive end.

A family council is most successful if there is a clear understanding by the family, board, and family office executives of its role, its authority, who

it represents, and how it is to work with the other governing and leadership bodies. Further, we have heard families discussing all too frequently how they had a family council that lost its steam.

Family councils that are working towards a project goal, for example, tend to build greater energy and buy in than councils that are not in any state of action. For example, one family had its family council create a survey to gather feedback from family members regarding the direction, leadership, and strategic planning for their family enterprise. The survey feedback surfaced important concerns with the leadership and the direction of how the family enterprise was being managed. As a result, the lack of confidence represented through the council's survey of the combined minority interests triggered certain leadership and board members to step down.

Although some councils play a more pronounced role in the governance of the family enterprise, other councils may have a focus to build cohesion, harmony, and connections across family branches. Another family council was asked to plan how to keep the family knitted across various geographies, time zones, and age groups. They inspired a family to involve the younger generations via a family blog that engaged younger family members to share more with the broader family. They also hosted an annual family retreat, which brought family members together to celebrate their heritage, and also to embrace their future as a family unit. From activities to build trust, such as ropes courses and obstacle courses, to educational forums to bolster financial skills, entrepreneurship skills, or communication skills, the family council was tasked with creating an experience that kept family members coming back for more.

Family Constitutions

Once the family meets, an important topic is whether or not they want to create their rule-making structure. On a country level, this structure would be called a constitution. The purpose of a constitution is to determine which decision-making bodies should exist along with what decisions they would be authorized to make on their own and which they would need member approval for. A good outside advisor would encourage them to write their own preamble about why they are creating the constitution. The subjects dealt with in the constitution can be as individual as each family is unique. The length can vary from 3 pages to as many as 55.

There are three important characteristics of a strong, robust family constitution.

1. Families who engage family members for the input and creation of the constitution tend to have greater buy-in by the family. In other words, where there is low or no involvement of family members in the drafting of the document, there is low or no commitment to the principles outlined in the constitution.
2. The family constitution is a living document. Families who periodically evaluate the charter and review the terms as it applies to the family today tend to abide by their family's constitutions. Some families will amend their constitution as changes or events occur in the family. It is important to make this a dynamic governance document that evolves as the family also evolves. One family we know reads their family mission, which is at the front of their family constitution, at the beginning of every family meeting.
3. Family constitutions do not have to be overly complicated and dense. Some families prefer to sketch out their purpose or preamble to start and identify over time the additional areas where they want to provide more definition. One family office shared its experience of how they created the constitution slowly over time and then, as life events occurred, such as the marriage of a daughter and birth of a grandson, they expanded on the norms and expectations of family members around different subjects.

There is no time frame for creating a constitution. It is helpful to have a committee or an advisory group or even the family council tasked with moving along the process of creation. Without owners of the constitution project, families may lose momentum and the drive to get it to a more formalized state.

Family constitutions may encompass a wide array of provisions and topics depending on the family. Following is a compilation of areas that may be included in a family's constitution.

Sample of Family Constitution Contents[17]

- Preamble or Statement of Purpose
- Family Membership and Responsibilities of Members
- Family Vision or Mission
- Family Values, Beliefs, or Principles

- Family Entities, Structures, and Processes
- Family Governance Protocols
- Family Meetings
- Family Office Board
- Family Council
- Family Business Board
- Investment Advisory
- Asset Management Board
- Risk Management or Asset Protection
- Family Philanthropy and/or Foundation Board
- Family Office Governance
- Family Bank and/or Family Co-Invested Funds
- Family Business Ownership
- Guidelines for Ownership, Inheritance, Succession
- Family Education Oversight
- Stock Agreements such as Buy/Sell Agreements
- Family Employment and Compensation Policies
- Family Gatherings
- Memorialization of Family History
- Conflicts of Interest

The following case study shares family governance insights from two members of the family who represent the fourth and fifth generations of an enterprising and philanthropic family.

Kettering Family Governance Case Study

The following case study shares insights from Charles F. Kettering, III ("Charlie") and his son, Grant Kettering, members of the Kettering family's fourth and fifth generations. Here is the family's story and insights into a modern family office and its governance practices.

History of DELCO

Charles F. Kettering was born in 1876 into a prosperous but humble farming family that had immigrated from Germany to Ohio in 1837. He grew up as a farm boy and worked various jobs, including installing telephone lines, to finance his own education. After several fits and starts due to persistent poor eyesight, he eventually received a degree in engineering from Ohio State University in 1904 and took a job at National Cash Register (NCR) in

Dayton, Ohio. At NCR, among other work, he invented a simplified credit approval system and electrified the cash register.[18] Prior to that, cash registers required a hand crank to open the cash drawer.

Inspired by these early achievements, Kettering and several associates decided to try to address a similar problem for the automobile, which at that time also needed a hand crank to be started. Working out of a barn, they spent nights and their free time beginning to develop what was to become the battery ignition system and self-starter for the automobile. When their first commercial order for 5,000 ignition systems came from Cadillac in 1909, Kettering, along with Edward A. Deeds, formed the Dayton Engineering Laboratories Company (DELCO). The self-starter was finalized in 1911 and installed in production models in 1912 by Cadillac. Kettering was among many innovators of the time, from the Wright Brothers to James Cox, who were inventors, entrepreneurs, and successful businessmen all clustered in the Dayton, Ohio area.

In the meantime, General Motors Company (GM) had been founded by William C. Durant in 1908 in Flint, Michigan, and was consolidating several motorcar companies producing Buick, Oldsmobile, Cadillac, Oakland (later Pontiac), Ewing, and Marquette, among others.[19] The popularity of the electric start engine had greatly increased the demand for GM vehicles, and so in 1916 the United Motors Corporation (another Durant company that was absorbed into GM in 1918) offered to purchase DELCO from Deeds and Kettering, making Kettering a significant shareholder. On June 1, 1916, Kettering opened an unincorporated private office (precursor to his family office) in Dayton to handle his affairs. A brilliant and humble inventor, entrepreneur, and business leader, Charles F. Kettering rode the wave of the industrialization as head of the General Motors Research Corporation, accumulating 186 US patents by the end of his career in 1947.

Expansion, Diversification, and Structure

Beginning in 1925, when his first and only son Eugene was 17 years old, Kettering began to transform the management of his affairs from a private office to a constellation of formal entities. The first was C.F. Kettering Inc., in which his investment interests were brought under one umbrella for the first time. Two years later in 1927, he established The Charles F. Kettering Foundation to formalize his philanthropic activities and "sponsor and carry out scientific research for the benefit of humanity." In 1935, when his first grandchild was four years old, he established the first family trust. During the later 1930s, among other investments, he purchased a controlling stake in

Winters National Bank, which eventually became not just an investment holding but deeply involved with family administration, including the fiduciary oversight of the Kettering trusts. In 1945, Kettering, together with longtime peer, Alfred P. Sloan, GM's longtime chairman, established the Memorial Sloan-Kettering Institute for Cancer Research in New York City.[20]

The family's governance approach has remained much as Charles F. Kettering originally established it. Since 1925, the organizations have utilized a formal corporate governance process, including through written books and records and decision-making through a formal board with both family and independent directors. Grant revealed, "It's not dissimilar to how other families of a similar vintage function in terms of implementing more formalized governance for the family and the family office."[21] Grant and Charlie shared during their interviews the importance the family attaches to formal governance, documentation including meeting minutes, and consensus driven decision-making, all of which have helped the family to maintain focus, control, and organization of their investment and philanthropic activities. Grant shared, "We still have the minute books going back to the twenties, which are incredibly interesting to read nearly 100 years later."[22]

Perhaps more importantly, Kettering also established the family's foundational values, culture, and operating norms that have shaped the decorum and demeanor of the family and set high standards for business, philanthropy, privacy, modesty, and inclusivity. Grant highlighted that stewardship is perhaps the most foundational family value, saying "We were taught to look at this wealth and the family office as something we should take care of on behalf of future generations in the family and the broader community . . . not something that belongs to us individually."[23] In 2017, the family adopted a vision statement formalizing this attitude, pledging to be a "philanthropic and investment organization that benefits the family, its local communities, and the world, for future generations."

When Charles Kettering passed in 1958, his thirty-three years of planning, philanthropies, and structuring from 1925 onward made for a smooth, tax-efficient transfer of ownership and control to the next generation. And in many ways, the portfolio stayed relatively consistent for the succeeding decades. There were over the years some acquisitions and some asset dispossessions, including eventually the sale of Winters National Bank to become part of what is today J.P. Morgan Chase Bank.

After Charles's death, his son, Eugene, and his wife, Virginia, devoted much of their time and resources to philanthropy. Among other activities, they donated much of the funding to build the Kettering Memorial Hospital in Kettering, Ohio, and the development and expansion of United States

Air Force Museum in Dayton. In the 1950s and 60s Eugene and Virginia expanded their philanthropy by establishing The Kettering Family Foundation. Unfortunately, Eugene's leadership tenure was cut short when he passed in 1968 at the age of 62, leaving behind his wife, Virginia, and three children. Eugene and Virginia's only son, Charles F. Kettering II, unfortunately passed in 1971.

Beginning in the 1980s Grant's father, Charlie, came of age and assumed a leadership role. Grant recounted that "the fourth generation had a fresh and different perspective, and my father's first responsibility, so to speak, was to educate and convince the family as a whole, including especially my great grandmother Virginia, to diversify and divest some of their concentrated holdings, including General Motors."[24] This was difficult given that GM was a flagship of American industry and still regarded as part of the family, but Charlie shared that he keenly understood the risk of such concentrated holdings. The move to diversify proved prescient, as the family members were no longer shareholders of General Motors when it entered bankruptcy protection in 2009.

Kettering Family Office Governance Evolution

Beginning in the 1990s, as the family footprint began to expand rapidly and the fifth generation continued to grow in size, the family began to institute new policies and establish new organizations to prepare for a future of more scale and complexity. Charlie recalled being invited while still in grade school to observe his first family meetings at The Carlyle Hotel in New York, stating, "I remember my first meeting and there were four or five people in the room . . . but a family of this [now growing] scale cannot be run like a small family business. This has been my life's work; get this repositioned for the next generation and those after, which will include many more people."[25]

First, the family decided to pursue a policy of internal transparency in order to maintain family harmony and encourage education and participation: All adult family members are permitted to attend and observe the board or committee meeting discussions. Grant advises that the invitation and access to participate and observe is a powerful expression of the family's commitment to transparency and inclusivity. Second, the family allowed each family unit to make their own decisions about participation and the manner of bringing in the next generation. Charlie shared, "It was up to the parents to prepare, educate, and permit their children to get involved."[26] Third, the family began to increase involvement of married-in members of the family, whom it sees as highly respected, valued, and welcome to participate in the broader family governance once they have been educated and committed to become involved.

In the mid 2000s, discussions began about the establishment of a new, formal family office entity to serve as a more efficient central governance and operating function for the growing family, which was established in 2009. The intention was to preserve the way in which the family made decisions by consensus, but also to simplify and consolidate decision-making across the family. "We had many overlapping members that were serving on many different boards and committees" shared Grant. The new structure has provided a structure for graduated participation and a centralization of information flows, while retaining the same formal approach inherited from the family's past.

Family Culture and Guiding Family Values

Family culture and values are at the core of the Kettering family. The family holds dear their shared family values that are captured in Figure 11.2 about their guiding family values and aspirational quotes from key family leaders. The family elder quotes provide keen insight to the core family values and their family culture.

FIGURE 11.2 Kettering Family Values and Principles

Kettering Family Culture

"Ten years from now, we shall be thinking thoughts and dreaming dreams not even in our conscious thought now."
—C.F. Kettering

"One has to work to produce wealth. You can't wave a wand and take it out of a hat."
—C.F. Kettering

"Leave more than you receive."
—Virginia W. Kettering

Individual Responsibility and Happiness	**Honesty & Integrity**	**Education**	**Freedom**	**Personal Responsibility**	**Hard Work**
Family Harmony	**Fairness**	**Transparency**	**Long Term Thinking**	**Fun**	
Community Thriving	**Generosity and Philanthropy**	**Moderation and Modesty**			

Source: Grant Kettering, 2020.

Grant attributes the family office success to its mission to support the growth of the family culture in five key areas:

1. *Role Modeling:* Elder family and advisors providing action-based guidance and mentoring to family.
2. *Trusted Advisors:* Support from independent, objective advisors who provide education and support to create the Kettering's customized plan and develop strategy to execute based on the family's goals and objectives.
3. *Family/Corporate Governance:* Committees formed within the family to create structure and consistency, increase communication, and provide guidance to decision-making process.
4. *Family Champions:* Family leaders who play a critical role, involving participation from family to preserve wealth and ensure family continuity throughout generations.
5. *Family Rituals:* The importance of regular family gatherings (virtually and in-person) to encourage community and continuity throughout the generations.

With more than twenty-five members in Grant's generation, finding opportunities and on-ramps for engagement, awareness, and to be good stewards of the wealth and ownership is paramount. The values of responsibility, accountability, and stewardship have been keenly woven in the family fabric. Grant expressed the value and power of their pooled wealth to collectively bargain and the importance to modernize and keep pace with change, coupled with the transparency, communication, and good access to information to empower the family and the family office.

Family Governance Committee Structures

The Kettering family office has instituted several smaller committees to help forward various initiatives. The committees all have specifically defined scope and operational protocols for meetings, having quorums to make resolutions, document decisions, and amend and evolve their charters as necessary. Grant further explained that there is a document that explains the authority amongst the various committees some of which include:

- Family Council
- Board of Directors
- Executive Committee

- Nominating Committee
- Compensation Committee
- Investment Committee
- Audit Committee
- Philanthropic Board of Trustees
- Eight Sub-Committees in Different Giving Interest Areas

Each committee has its own charter, defined operational procedures, and understanding of what committee membership requires. The committee's resolutions and actions all feed up to the Board's mandate. Grant explains that the investment committee, for example, provides recommendations on asset allocation, investment opportunities, tax considerations, and so forth that the appropriate Board takes under advisement to make decisions with respect to its investment policies.

Conclusion: Embracing the Future

The Kettering family has evolved their family office over almost the last thirty years from having one physical office in Ohio to now having another in Delaware and a robust virtual presence with family office advisors, consultants, and key owners spread across global geographies.

Enabled through outsourced institutional partners, consultants, experts, and advisors, the family has put in place robust virtual systems enabled by enterprise class technology to support cloud document storage, information sharing, collaboration, workflow management, cyber security, virtual communication with video conferencing, and so on. These new virtual tools have made the family's work more efficient, but the same basic processes are still being carried on in their new virtual form.

Charles F. Kettering once shared, "We should be concerned about the future because we will have to spend the rest of our lives there." The Kettering Family governs to moderate the changing family footprint and their evolving needs, embracing what is next; adaption and stewardship are central premises to the future family office and its good governance.

Conclusion and Final Thoughts

In this chapter, an overview of various facets of successful family governance, which is an integral part of an exceptional family office, was shared. From recommended practices and the benefits of a strong Board and/or advisory

Board, to the important elements of family participation, accountability, transparency, and involvement of future members of the family in the governance of the family office, this chapter illustrates the bridge between governance of the family and the family office. Next, the chapter covered succession planning and a broader discussion of decision-making in the family and how to get started with developing a governance process in your family. The chapter concluded with the Kettering Family Case Study, which detailed a seventh-generation family and its evolving governance practices. From developing a family council to a developing a family constitution, there are a number of governance structures that can increase the effectiveness of the decision-making process. Effective family governance can be an important contributing factor to sustainability, as it can help foster a sense of unity, togetherness, and cohesion in the family. Family governance can help to bridge family leadership generation to generation, build family consensus, and bring a sense of continuity in a family. Strong governance practices can be the compass that helps keep them on track, particularly as families face periods of transitions. Thank you to Charlie and Grant Kettering for sharing the wisdom and insights from the Kettering heritage in the governance case study for this chapter.

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7. Ibid., 76.
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