



FEDERAL STREET  
ADVISORS

*"Life, it seems,  
is nothing if  
not a series of  
initiations,  
transitions  
and  
incorporations"*

- Alan Dundes,  
Noted 20<sup>th</sup>  
Century  
folklorist &  
scholar

*"Never say you  
know a man  
until you have  
divided an  
inheritance  
with him."*

- Johann  
Caspar, 18th  
Century poet

## Family Governance: The Key to Successful Wealth Transition

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By: John Przybylski, JD, LLM, CFP®, Director of Financial Planning  
Charles A. Walsh, III, Principal

As every seasoned advisor knows, the most challenging aspect of our work is often the "softer" side – helping our clients navigate the complex family relationship issues associated with wealth. Transitioning wealth to the next generation is an especially perilous undertaking – as evidenced by the fact that historically most fortunes are dissipated within three generations.

At Federal Street Advisors we help clients navigate these challenging issues and in fact we spend much of our time on the "softer" side. In this white paper, we will explore some of the strategies that we and other advisors can use to help families preserve both wealth and family harmony – and create a meaningful legacy.

- The family patriarch dies, leaving a successful business, a wife who was never involved in the decision making and four children, only one of whom works in the family business.
- A couple with two 20-something children has never been able to talk to them about money. The kids are completely unprepared for their inheritance and have no experience managing assets.
- The family foundation is well funded, but the trustees (including the founder's four children) have never participated in the decision making. In fact, they – and their spouses - don't communicate well with one another.
- Years ago, a wealthy couple set up ample trust funds for their children, one of whom cannot live within a budget. She is approaching bankruptcy and turns once again to her widowed mother for rescue.

These are familiar scenarios to all of us who work with high net worth families – and we've all seen how sadly these scenarios can deteriorate over time. The fact is that all families have disagreements and conflicts - and wealth can exacerbate these conflicts. Because wealth often creates shared assets, joint decisions are required. And not infrequently, the children of wealth may not be as financially motivated as were earlier generations.

### **A family governance structure establishes rules and a code of conduct**

So how can families of wealth ensure that what they have worked so hard to achieve is not squandered by future generations? The answer lies in creating a governance structure - a system that allocates power, defines a method for making decisions and establishes a code of conduct. In the context of a family, it is also a way for a family to establish its identity and sustain its culture and wealth for multiple generations.

One popular governance structure, advocated by many advisors, is the Family Council. In small families, this council may include all family stakeholders. In large families, the council may include appointed or elected representatives from each branch of the family. The council's responsibilities vary depending on the family's priorities, but often include:

- Developing the Family Mission Statement
- Keeping the family informed about the business and other family issues
- Helping the family reach decisions
- Documenting the family history
- Creating policies
- Holding educational events
- Planning family social gatherings

### **The most successful family governance structures foster communication.**

A family council or other governance structure can improve the quality of family interactions by keeping family members connected with each other – and informed about the status of both the family and the family business. It can be used to facilitate discussions about family business leadership transition and the estate plan of the senior generation. And it encourages family members to address issues constructively rather than leaving them to fester into larger issues.

One of the most positive aspects of a family governance structure is that it fosters financial maturity by including children early in some basic financial decisions.

Sometimes outside facilitation is required to help families talk productively with one another. One of our challenges as advisors is to know when it's time to reach beyond our considerable competence and recommend the assistance of an expert family psychologist or family transition specialist.

*"One does not jump, and spring, and shout hurrah! at hearing one has got a fortune, one begins to consider responsibilities, and to ponder business; on a base of steady satisfaction rise certain grave cares, and we contain ourselves, and brood over our bliss with a solemn brow."*

– Emily Bronte,  
19<sup>th</sup> Century  
English novelist  
& poet

*"The real art of  
conducting  
consists in  
transitions."*

- Gustav  
Mahler  
19<sup>th</sup> Century  
Austrian  
composer

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*"The mission of  
family  
governance  
must be the  
enhancement of  
the pursuit of  
happiness of  
each individual  
member."*

- Jay Hughes,  
Author,  
*Family Wealth:  
Keeping it in  
the Family*

### Recognizing that family capital is more than financial is a good place to start

The family council's work often begins by helping the family define and value wealth differently by acknowledging that there are several types of family capital:

- Financial capital – the most familiar to most of us
- Human capital - the individual competencies and personality attributes of individuals within the family
- Intellectual capital - the family's collective experiences and wisdom
- Social capital - how the family defines itself within the community. (Philanthropy can play a large role here.)

The types of family capital are explored thoroughly in several excellent books on the subject, notably Charles Collier's *Wealth in Families* and James Hughes *Family Wealth: Keeping it in the Family*. (See the reading list at the end of this white paper.)

### The Family Mission Statement

One of the most valuable exercises a multigenerational family can undertake – with or without a formal family council structure – is the formulation of a Family Mission Statement (or Constitution). Writing a family mission statement can be a powerful tool in bringing the family together. It allows family members to acknowledge shared family goals and values and establishes a code of conduct based on those values. It reflects the family's history and attitudes about the relationship between financial capital and individual initiative (an often sensitive subject for hard-driving patriarchs with less financially motivated offspring).

### Deciding Who to Include in Family Decision Making Is Often Challenging

As always, the devil is in the details – and some of the details have the potential to be explosive if not handled properly. Deciding who is to be included in the family governance structure is one of those. Are spouses to be involved? What is the minimum age for participation?

Do we need to involve an outside advisor who can listen objectively to each family member to learn the culture and values of the entire family and help us suspend the family's normal decision-making patterns? And what's the optimal venue for discussion? Some families prefer formal, scheduled family meetings on an annual or quarterly basis. Others opt for family retreats conducted over multiple days at an off-site location.

### Our Role as Advisors

Federal Street Advisors acts as a facilitator and quarterback for our complex multi-generational clients. We keep our eye on the whole field of issues, spot areas of both opportunity and vulnerability, and closely coordinate our efforts with other teammates - our clients' attorneys, accountants and other family advisors. We pride ourselves on knowing when to engage special teams – be they investment bankers or a family psychologist. It is an honor and a privilege to play this role, and our long-term client relationships have reflected this active participation.

In our decades of experience working with clients, we have been continually struck by their ever-increasing focus on legacy. Preserving and passing on wealth is vitally important, of course, but most are equally concerned with philanthropy and the readiness of the next generation to be good stewards of their inheritance. Creating a solid family governance structure is one of the most effective tools for sustaining a meaningful family legacy – one that honors and preserves both wealth and core values.

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*We invite you to learn more about Federal Street Advisors work with multigenerational families. Please call Charlie Walsh at 617-350-8999.*

### **Reading List – Wealth and Families**

#### **Family Wealth--Keeping It in the Family: How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations**

- by James Hughes

We highly recommend this acclaimed book, which covers creating a family mission statement, instituting a family bank or private trust company, mentoring the next generation, family governance, philanthropy and much more.

#### **Wealth in Families**

- by Charles W. Collier

This is one of the best books we have read to date dealing with raising children in wealthy households. It is an excellent book on a critical topic.

*“Our ideals, laws and customs should be based on the proposition that each generation, in turn, becomes the custodian rather than the absolute owner of our resources and each generation has the obligation to pass this inheritance on to the future.”*

- Charles Lindbergh

**Best Intentions: Ensuring That Your Estate Plan Delivers Both Wealth and Wisdom**

- by Colleen Barney, Esq. and Victoria Collins, Ph.D., CFP

This really wonderful book is told from the point of view of those who inherit money. It really explains how people interpret wills from a personal point of view, and provides fascinating insights into this very complicated topic.

**Beyond the Grave: The Right Way and the Wrong Way of Leaving Your Money to Your Children (And Others)**

- by Gerald M. Condon, Esq. and Jeffrey L. Condon, Esq.

This book is designed to open the reader's eyes to the myriad of family issues and problems that occur in the inheritance arena. Hopefully, those who take the time to read this book will be able to avoid some of the more common problems and conflicts that typically arise when family wealth passes to the next generation. And, at the very least, this book should demystify the numerous complicated terms often used by professionals in this area.

**Navigating the Dark Side of Wealth: A Life Guide for Inheritors**

- by Thayer Cheatham Willis

This is an excellent but rather dark book, and some may be offended by the strong religious overtones. However, readers struggling with how to raise children in a too plentiful world will find it insightful. Born into great wealth and now a counselor, Thayer shares her own experiences and insights as well as stories about her clients.

We invite you to visit our **website reading list** for more recommendations.

*"I have discovered that the hardest, yet most rewarding part of the planning process is asking essential questions about what people want to preserve – besides financial wealth – and how they can enhance each family member's growth."*

- Charles W. Collier, Author,  
*Wealth in Families*