

# FAMILY GOVERNANCE

*Using Communication, Trust, and Empowerment to Preserve  
Wealth for Generations*



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# FAMILY GOVERNANCE

## Our Vision

We firmly believe that communication, trust, and empowerment are essential to successful transitions of family wealth. Through 29 years of working closely with clients and their families, we have developed a framework to design and implement family governance to help facilitate successful transitions of wealth.

"There are ways of facilitating transitions, and they begin with recognizing that letting go is at best an ambiguous experience. They involve seeing transition in a new light of understanding the various phases of the transition. They involve developing new skills for negotiating the perilous passage across the "nowhere" that separates the old life situation from the new."

-William Bridges, Leading Transition Consultant<sup>1</sup>

At Shepherd Financial Partners, we believe the goal of family governance and successful family wealth transitions is to assist future generations in their pursuit of a fulfilling life, while minimizing the potential disadvantages of inherited wealth. The purpose of this paper is to discuss the common challenges that families face when transitioning their wealth and how to use family governance as a tool to combat these challenges using communication, trust, and empowerment. We ask that you use this paper to start a conversation with your own family on your plans to transition wealth, and furthermore, consider how we can serve your family to preserve your wealth for generations to come.

### **First, what is Family Governance?**

In the most basic sense, Family Governance defines how a family communicates and makes decisions as a team. This may sound simple, but the process for designing and implementing the system can be complex, and requires work from everyone in the family. However, we strongly believe that the work put into establishing a system of Family Governance will pay extraordinary dividends for generations to come as it lays the foundation for successfully transitioning not only wealth, but also family values.

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<sup>1</sup> Bridges, William. *Transitions: Making Sense of Life's Changes*

# What are common challenges our clients face?

## **The Challenge of Wealth Transfer**

Transitions are inevitable, but wealth creators have been notoriously bad at preparing heirs to receive wealth. Studies show that 90% of families of wealth lose their wealth by the 3rd generation (the Williams Group). However, this research is not revolutionary – cultures across the globe have old adages espousing the same warning: the Chinese have a saying, "Wealth never survives three generations," the Scottish proverb says "The father buys, the son builds, and the grandson sells," and the Japanese saying goes "Rice paddies to rice paddies in three generations." The wealth creator focuses on doing whatever it takes to make the wealth, leaving little time and energy to plan for its preservation. It is rare that the entrepreneur plans for not being there to support his or her family. The questions for the entrepreneur to consider are:

- "I have accumulated this wealth, but what if I had inherited it - how well would I have done with it if it had been given to me?"
- "Will I create disadvantages, burdens, or ill fated life choices by transitioning this wealth?"
- "Will the transition of wealth divide or unite my family?"
- "How can I leave this wealth to motivate, inspire, enhance the future generations to create a better life for themselves and others?"

## **Wealthfare™**

We trademarked the word "WealthFare(TM)" as part of our process to work with our clients to transition their wealth. We have observed that the subsidy of a trust fund may produce an effect in which the heir lacks incentive to produce wealth or maintain a sustainable lifestyle. This leads to the depletion of family resources, and a potential divergence in family values. A proper wealth transfer plan will help reduce the prospect of future generations living on WealthFare™.

## **Communication Breakdown**

In our opinion, the central theme of every failed wealth transfer is lack of communication and an imbalance of power. Families grow exponentially across generations and the increased numbers of family members may be spread across personal experiences and geographies. In most cases, wealth creators do not clearly and collectively communicate the who, what, when, why and how of their plans to transfer wealth, leading to confusion and even contention among the heirs.

## **Planning is Key**

Most families do not have a future spending plan to set proper guidelines of what could be expected when the family wealth gets diluted into many family members from the original family unit. Laying out a plan specific to your family's resources and values can help turn heirs into great recipients of wealth, thereby increasing the likelihood that wealth extends for generations to come.

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## **How does your family overcome these challenges?**

With all of the horror stories of families being negatively affected by inherited wealth, why is there so little information on solving this problem? We have made it our mission to change the way families approach transfers of wealth to promote sustainability, success, and unity for generations to come. The most effective tool we have found to produce these outcomes is Family Governance.

# How we work with you to create Family Governance

## **Laying the Foundation for Success**

Family dynamics are one of the hardest things to change. In spite of this, we have found that implementing a strong family governance strategy based on communication, trust, and empowerment moves families towards a positive perspective of wealth and therefore its transfer. This framework provides the knowledge for families to use their wealth to enhance their lives and pass their family values and legacy to future generations.

The conventional design of having documents (i.e wills and trusts) be the sole drivers of wealth transition leaves a major gap in the process: the human experience. Our curriculum is governed by well-executed estate planning documentation, but has its foundation in clearly communicating, agreeing upon, and living core family values. The values we help families identify range from how family members communicate with each other, to the way family views wealth and how it should be used.

*It is essential to not only give future generations the map to success, but also teach them how to read it, and empower them with the tools they need to make the journey.*

## **Communication**

The first step in our Family Governance curriculum is establishing open and effective communication among all family members. The first goal is to get the family talking about their collective goals and values in an organized forum. Through multiple exercises, the family will be able to clearly identify their core values and overall family mission statement; this will foster inclusion and family engagement across all family members.

One of the outputs of our communication exercises is a written family covenant or mission statement. This is the guideline for communication, decision-making, conflict resolution, resource allocation and general governance. The family covenant acts as a code of conduct to help promote productive family meetings

where individual opinions are encouraged. Beneficiaries should be included in the conversation surrounding the governance of family wealth. The value in being able to voice one's opinion in accordance with the family covenant helps maintain long-term trust and openness among family members.

The communication curriculum does not stop with “what the family communicates” but also crosses over to “how the family communicates.” Through the family governance process, there should be frequent check-ins to maintain agreement on core family values and goals, and to share family experiences to enhance family bonds. Further, having agreements on how family members should communicate with each other is essential when conflicts arise and need to be solved. Conflict resolution through open and honest dialogue, and an understanding of conflict-free-challenge will reduce the risks of communication breakdowns and family disengagement. Clear communication will improve decision-making and keep family members focused on their common goals.

## **Trust**

We believe that trust is the foundation of successful relationships, and family relationships are no exception to this rule. In order to create a strong family governance framework and successful transfer of wealth, there must be a strong sense of trust at every step of the way. We help families maintain a foundation of trust through multiple strategies.

The first strategy involves building personal trust in the family through enhanced communication. We have found that positive communication systems will foster a trusting environment among family members by increasing transparency, reducing conflict resolution time, and allowing families to agree on a set of values and goals. Another strategy is to create a clear organizational structure that will govern family wealth. Documenting the structure and family members' roles and responsibilities will also improve transparency and allow family members to feel more engaged in the overall mission of the family enterprise. We also work with our families to form and learn how to govern a Family Stewardship Board. The board governs the family wealth as a for-profit enterprise. The board is accountable for the current

generation and beneficiaries. Finally, we work with family legal counsel to design effective documentation (i.e trusts, wills, and operating agreements) that govern transfers of wealth. We also recommend that there is enough flexibility to adapt to changing times and also that there is a balance of power and no one can create a monarchy. Heirs will be educated on the meaning and consequences of these documents to begin the education process and create a bridge of trust across generations.

## **Empowerment**

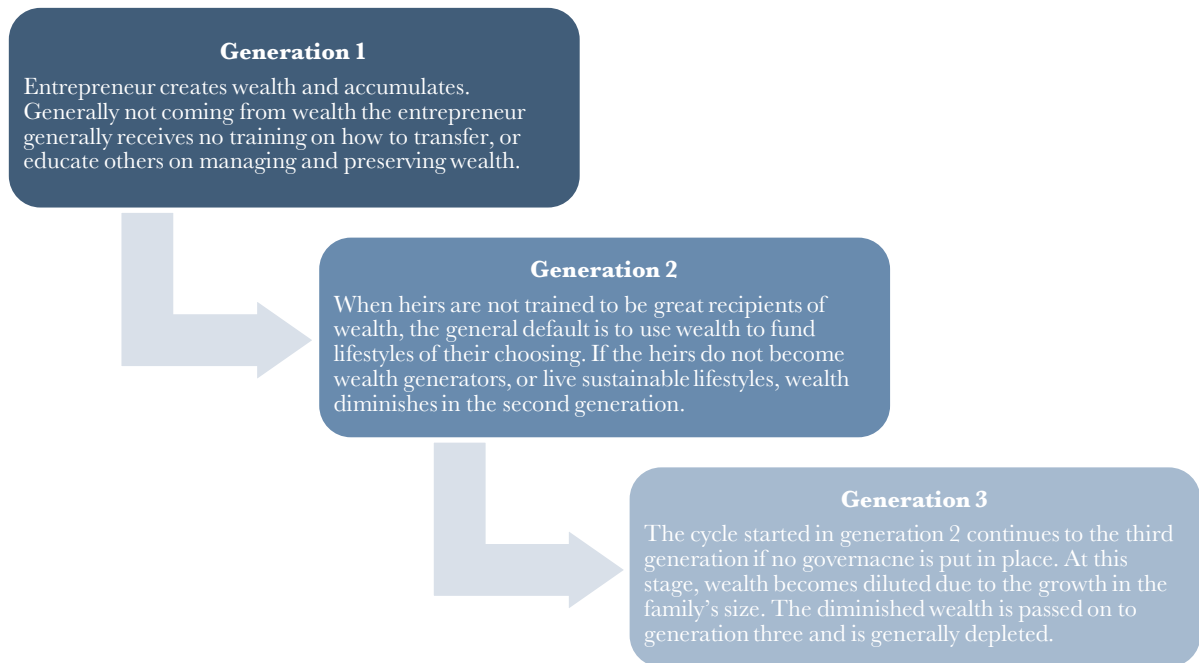
Being empowered with knowledge and having transparency promotes successful outcomes in the wealth transfer process. The primary focus of most estate planning professionals is on minimizing estate taxes and income tax on inherited wealth. There has also been a substantial push to move the accumulated wealth outside of the family using foundations or non-family trusts. We certainly see great value in this and employ these tactics. We also see these as the basic instruments to facilitate transitions.

The most successful transitions are achieved when there is a purposeful process of developing talent identification, talent training, and talent retention within the family. Family beneficiaries are trained in roles that give them purpose as they govern and benefit from the wealth. We strongly advise that trusts and other governing documents include incentive language to create a culture of inclusion and involvement. Through proper education, training and other empowerment exercises, each family member should understand the family dynamics, and accept the responsibility to manage resources for multiple generations. They should also have the competence to create sustainable growth within the family enterprise, or their own ventures. We develop talent both within the family and outside the family to enhance the family wealth. This creates great outcomes and avoids nepotism and irrational decisions.

Training future stewards of wealth should start young. Leading by example and telling the family story is the foundation. Giving younger members of the family a vote on some matters can be very powerful. They can then participate in more

voting as they mature. Indoctrinated younger members into the family process and culture can make it easier to solve conflicts internally rather than through the legal system. The training of financial literacy is also extremely important. A person of wealth will have no shortage of investment ideas to consider.

*Break the cycle of wealth depletion using empowerment.*



The cycle has to be broken by introducing Family Governance to train wealth creators to empower future generations, and teach future generations to be great recipients of wealth. The earlier that formal systems are introduced to empower families, the sooner that the cycle of family wealth depletion can be stopped and wealth can be preserved for generations to come.



# Getting Started

## Your Checklist for Initiating Family Governance

- Do you feel that you are creating excellent future stewards of family wealth by developing trust and talking about family values?
- Does your Family Covenant create an environment that encourages all members of the family, young and old, to actively participate in managing family assets?
- Does your family have a formal education process whereby future stewards learn about investment and spending policies, reviewing family governing documents, and executing family performance reviews?
- Do you have frequent family gatherings separate from family financial meetings as distinct and purposeful times to communicate about family history, successes, and challenges?
- How do you decide when future stewards are ready to manage the wealth?
- Would you sell your wealth to your family if you considered it a business?

## Shepherd Financial Partner's 5 attributes that families must embrace:

1. Family members must trust each other!
2. Everyone should communicate and understand protocol on speaking as stewards.
3. Future generations should be empowered to challenge the status quo without impunity.
4. Families should share a common value and adhere to a family mission (this includes that individuality is championed).
5. The last important attribute is that there are leaders in the family, but there is no power center (what we mean is that the family has no one that has control or any undue influence over other family members).

## Conclusion

In our extensive work with families and family offices, we have witnessed first-hand the power that implementing a system of family governance has when attempting to preserve wealth across generations. The best results come with a well-designed and documented plan, and vigilant monitoring by the family. This work will pay off when future generations of your family have: the resources to enrich their lives, the education and confidence to make empowered choices, the continuity of family values that guides a family legacy through generations.

In many ways, transitioning family wealth is like handing down a cherished family recipe. If you expect the younger generations to successfully prepare the meal, you have to tell them the story of where it came from, explain why it is such a valued part of your family, and give them the necessary tools and ingredients to recreate it in their own way. They may not get it right on the first try, but as you spend time developing their skills, they will become masters in their own right, ready to share what they have learned with the next generation.

The partnership that we forge with our clients provides unique objectivity on the preservation of family wealth and values through the generations. We are fully aligned with our clients both as a steward of the family wealth and as a fiduciary.

As you reflect on your own family's condition, we would like to consider:

- How do you envision your wealth transitioning to the next generation?
- What roadblocks currently stand in your way of achieving your ideal vision?
- How can Shepherd Financial Partners best position your family for generations to come?

This information is general in nature, and not intended to be a substitute for individualized legal advice. Please consult your legal advisor regarding your specific situation.