COLLAS CRILL

Facilitating the harmonious transition of wealth across generations

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Family wealth, whether in the form of a business, assets, or investments, is not only about the material possessions but also the values, traditions and relationships that sustain it.

In a world where businesses, fortunes, and legacies are increasingly passed down through generations, the importance of family governance cannot be overstated. Effective and well thought-out family governance structures ensure a seamless transition of wealth, values and leadership from one generation to the next.

What is family governance?

Family governance refers to the framework of rules, processes, and structures used to manage family wealth, family-owned businesses, and family dynamics across generations. It ensures that the interests of the family are aligned, conflicts are minimised, and the family's wealth can be preserved and enhanced over time.

Governance is about ensuring that each family member understands their roles, responsibilities and privileges within the family business or wealth legacy, documenting how decisions are made, how disputes are resolved and how the family members interact with their financial and business assets.

Family constitution

While formalising the governance process, the patriarch or matriarch should compose a family constitution. This is a set of guiding principles, agreements, and documents that help govern a family's wealth and legacy. This formalised document articulates the family's values, expectations, rules of conduct, and decision-making processes. It serves as a blueprint for governance and is typically designed to align all family members with the family's vision, mission, and legacy. It is not a static document but rather a dynamic one that evolves as the family evolves but is a central place to document the principles, rules, and agreements governing family relationships, business operations, and wealth management.

A well-crafted family constitution provides structure and clarity, which are crucial in minimising the potential for conflicts or misunderstandings about the management and distribution of wealth in the future. By setting out the roles, responsibilities, and rights of family members, it can guide the transition of wealth from generation to generation in a way that preserves the family's values and objectives.

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The challenging part of creating a family constitution is the discussions that need to be had with the family members regarding the future plans and the expectations when the patriarch/matriarch are no longer around. While these can be challenging initially, these discussions are important to have and the opportunity is lost once the patriarch/matriarch passes away. Having these conversations and documenting the outcomes and intentions during their lifetime enables them to seek buy-in and respect from the next generation of family members and therefore reduces the risk of disputes between those left behind on their death.

Key components of a family constitution in facilitating wealth transition

Vision and mission

These sections of a family constitution articulate the vision and long-term goals of the family. A shared vision fosters unity and ensures that each generation understands and contributes to the family's wider objectives. A well thought-out family governance structure can help families set long-term goals for investments, philanthropy, and business operations, ensuring that the wealth lasts for generations, rather than depleting due to poor decisions, mismanagement and/or dispute resolution.

Values and principles

These define the ethical and moral compass of the family. This might include values such as stewardship, entrepreneurship, philanthropy, and sustainability, ensuring the family wealth is managed in a way that aligns with those principles. A family constitution is a powerful tool in aligning generations around shared values and principles and for encouraging these discussions. Without this alignment, different generations might have conflicting priorities such as the first generation wanting to grow the wealth and the second generation wanting to enjoy the benefits of it. The constitution fosters communication, education, and understanding between generations, so that every family member, whether they are active in the family business or not, has a clear sense of responsibility and understanding about what the wealth represents and how it should be managed.

Governance structures

Clear governance mechanisms are essential for family members to make decisions collectively and fairly. This section might include structures like family councils, boards of directors, or advisory committees, as well as guidelines for family meetings, voting procedures and leadership succession plans.

Conflict resolution

Wealth transitions often create tension within families, particularly when expectations are not clearly communicated. By setting clear guidelines for wealth distribution, decision-making and inheritance within a family constitution, the risk of these conflicts arising is mitigated. The constitution helps ensure that each family member feels respected and understood, reducing the potential for disputes that can arise when there are no clear guidelines in place. Regardless, disputes are inevitable over time so the family constitution should clearly outline the mechanisms for resolving disputes in a fair and structured manner, whether through mediation, arbitration or another process.

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Roles and responsibilities

A family constitution helps define the roles of family members in both the family business and family wealth. It might outline who is involved in managing family investments, running family businesses or contributing to philanthropic causes, and under what conditions.

For a family business; longevity depends on careful planning for leadership transition. A family constitution can clearly define leadership roles and the criteria for selecting successors, ensuring that the business is steered by individuals who possess the right skills and vision. This structure minimises disruptions during transitions, helping the business thrive long after the original founder has stepped away.

It is of course also important to consider family members who may not be part of managing the family business as this can often cause disputes between the family members who are involved in the day to day who may feel a degree of entitlement to additional benefit as a consequence and therefore the thoughts and vision of the patriarch/matriarch is important to document.

Succession planning

A critical aspect of the family constitution is succession planning, even if there is an existing family office in place. This should address how leadership of family businesses or stewardship of family wealth will pass from one generation to the next. Succession planning ensures that the transition is orderly, reduces uncertainty and prepares younger generations for leadership roles.

The family constitution serves as a living document that provides future generations with a clear roadmap for managing family wealth and navigating familial relationships. This ensures that the next generation is prepared, understands the expectations placed upon them, and is ready to take on their roles in managing the wealth and/or family business.

Conclusion

Family governance is not just a strategy for managing wealth; it is a framework for preserving family harmony, ensuring that values are passed down, and promoting sustainable growth across generations.

Having been a trustee for more than 20 years, I have spent many hours with some extremely close-knit families. I have witnessed the unfortunate passings of patriarchs/matriarchs and seen families divide due to conflicting opinions; this is clearly what every patriarch/matriarch is trying to avoid in their planning efforts.

Sadly this situation always occurred when there was no family constitution in place. This would have helped clear some of the discrepancies in the family members' understanding of the patriarch/matriarch's intentions and facilitated a more harmonious transition of wealth and, importantly, a strong ongoing familial relationship.

Governance is not only useful for the family, it is also an extremely helpful guide for trustees and advisors to reference too when family members may have a difference of opinion.

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In conclusion, for families wishing to build a legacy that transcends generations, creating and maintaining a family governance structure with a clear and structured process for passing wealth from generation to generation is not just an option, it is an essential step toward ensuring long-term success and unity.

If you would like to discuss further or would like help in facilitating these discussions, please do reach out and we will endeavour to help.

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