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Keeping your house in order

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Date : June 2010



ABOUT THE AUTHOR: Christian Stewart TEP is Managing Director Family Legacy Asia (HK) Ltd. Many family offices in Asia are formed with the purpose of helping to manage the investment of the family's financial capital. However, forming a family office can also be seen as an acknowledgment that the 'business of the family' is separate from the family's business activities (as many Asian families are still business operating or controlling families). Forming a family office acknowledges that the family has its own separate needs.

Importantly, if a family has a goal of jointly owning or managing financial wealth together, then that family will need to formalise the way in which it makes joint decisions together. This is called 'family governance.' The family office can help the family it serves adopt sound family governance practices.

Organising the family decision making process

The first step could be for the family office to help the family examine its decision-making process, ie looking at the question of how family decisions are made, and by whom. The family office can start by considering what decisions are being made by the family by developing a list of all the matters that require family consideration.

If the first generation of the family (the 'wealth creator') is very busy managing and leading the family business, they may at the same time insist that they make all of the decisions on any family issues as well. However, if the first generation family members are so busy with the business, the obvious question is whether certain decisions can be delegated either (i) to the family office, or (ii) to other family members (for example, to a spouse or to children), or (iii) to a committee of family members.

This process of delegation helps save time and frees up family members who are already very busy on business matters. That in itself is one of the reasons why families decide to set up a family office. However, perhaps more importantly, this process of delegation will also help to develop the next generation by giving them decision making responsibilities.

There are as many different kinds of family offices as there are the families that set them up

In order to develop the competencies of the next generation you need to give them the chance to make mistakes and to learn to make decisions on their own. Thinking ahead to the future and having a long-term vision for the family also dictates the need to start delegating some authority to the next generation today.

Part of helping to organise the decision-making process is for the family office to schedule regular family meetings, for example every quarter. At the family meetings those persons who have been delegated decision-making authority with respect to a particular area will report back to the family on the decisions that they have made or the matters that they have been working on or considering.

An example could be the case where the family as a whole makes a decision that it wants its philanthropic activities focused on education. One of the family members can then be delegated authority to make decisions on which institutions would receive grants or support. This individual would provide a quarterly 'report' (even if just presented verbally) at the family meeting as to the grant recipients they selected.

Between family meetings the family office can help by doing the foot work on behalf of the relevant family member or committee who has been delegated responsibility for making those decisions.

Articulating the mission for the family office

There are as many different kinds of family offices as there are the families that set them up. In broad terms, some family offices are essentially administrative offices that help the family members keep track of their personal affairs, helping them with their taxes, etc. Many family offices in Asia are all about investment management. Some family offices will also play an oversight role, or even actively drive the family philanthropic work. Then there is what you could call the 'full service' family office, which will handle all of the foregoing, but in addition has a responsibility to see that the family's human capital, intellectual capital and social capital are all being developed, along with the financial capital of the family.

An essential task for the family office is to help the family to articulate the mission for its family office. What is the scope and role of the family office and what is the long term goal? Exactly who are the clients of the family office? What are the services that the family office is expected to provide to family member clients?

If the family members are too busy to undertake this task then the family office could be the one to prepare the first draft of the family office mission statement.

Ultimately the family members need to agree on the stated mission for the family office. The family members might need to be interviewed to canvass their individual views; then there could be a series of family meetings on the question. The end result should be a family agreed document as to the role, mission and scope of the family office, who are its clients, and how they pay for its services. It is also very important for the family office executives and staff to have a very clear understanding of the values of the family that they serve.

Clarifying roles and responsibilities

It is important for a family to create clear roles and responsibilities for family members. Again the family office could help in this process. In a typical business owning family, with or without a family office, one of the challenges is managing multiple relationships. A good starting point when working with a family is to make its members realise this complexity. In order for family members to be able to communicate effectively and to make decisions together, it is very important to be clear about which 'hat you are wearing.'

Where one of the family members spends some time working in the family office, one example of creating clear roles and responsibilities is to create a clear written job description for that individual which, specifies the matters with respect to which that individual has authority on behalf of the family office to make decisions.

Family meetings

The family office helps to give some focus for the family. However, it is also very important for the family to carve out some time for family office or for family matters. In practical terms the best way to do this (ie to ensure that time is being dedicated to family office and to family matters) is to schedule regular family meetings. The family office can help to set the agenda for family meetings.

The family meeting might include invited guest speakers. For example, if the family is interested in philanthropy, then a speaker from the family's favourite charity or NGO could come and present on its activities. From time to time the family meeting agenda could include reviewing a new white paper or article discussing best family office or family governance practices. Work on developing a family mission statement would often be an initial project for family meetings.



Who should attend family meetings?

Who should be involved in family meetings? It would be fair to say that many Asian families take a somewhat conservative view on this type of question and would prefer to limit participation in family meetings to 'blood issue.' However, it should be born in mind that family meetings are about discussing family matters, not business matters. For example, if there are a series of family meetings focused on family values and mission, which did not discuss business or financial matters, then there would be no confidentiality issues that would make it inappropriate for in-laws to attend.

It is also worth bearing in mind that a family stays together as a result of its unique family values. It would be very hard to pass on particular values to the next generation if one of their parents has effectively been excluded from the values discussion.

A family self assessment

Much has been written on the topic of best family governance practices and on the characteristics or attributes of families that have successfully perpetuated a family legacy. The family office could obtain a self assessment tool or 'family questionnaire' that looks at best family governance practices (or for that matter, best family office practices).

The family office could arrange for the family members to complete the family questionnaire at least once a year at, or in preparation for, a family meeting. The family could then go through each member's answers to the questionnaire and discuss among themselves the things the family does well and the things that could be improved upon. The family should then focus on 'the gaps' revealed in the results of the questionnaire.

The family balance sheet

In addition to a family questionnaire, another tool along similar lines that can be used is the 'family balance sheet.' The idea of the family balance sheet is discussed in *Family Wealth: Keeping it in the Family* by James E. Hughes Jr. (Bloomberg Press). The family balance sheet is a tool for measuring the growth (or decline) of the family's human, intellectual and social capital, after deducting the long term, intermediate and short term risks to the family's long-term wealth preservation goals.

The family office and financial education

The family office can help the family to design its own learning curriculum and then help put together the necessary programmes, inviting speakers and keeping an eye out for suitable wealth management courses and family office conferences. The family office can help family members to think about the question of mentoring for the next generation.

Conclusion

If a family office has been set up to help a family preserve its wealth for the long term then the mission of that family office must necessarily include helping the family adopt best family governance practices.