



Family Office Association Q&A

Angelo J. Robles on
**Family
Governance
within Asian
Families of
Wealth**
with
Christian Stewart
Managing Director, Family Legacy Asia

OVERVIEW

- Q:** What mechanisms should a large family of wealth have in place on making inclusive decisions?
- Q:** What are the problems that can happen when this is not the case and just one person makes the decisions?
- Q:** This all comes down to family governance issues, how does a family start to formulate a family governance plan?
- Q:** How does a family governance plan help the family make effective decisions and how often should this be reviewed and adjusted annually?
- Q:** How do families involve through marriage or adoption non-blood line family members into the process?
- Q:** How do families incorporate a family council into the family governance plan?
- Q:** How early do you recommend engaging the younger family members into this process and how?
- Q:** Tell us about a family constitution?
- Q:** How do families preserve their history and culture yet also adjust to changing conditions and social norms over generations?



AJR: What mechanisms should a large family of wealth have in place on making inclusive decisions?

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CS: When I work with Asian families, the wealth creators, if they are still around, have a natural tendency to get a bit nervous if you start talking about widening up participation in decision making too much. The Asian way is to prefer identifying the family members who are perceived to be the most competent and appoint them to positions of authority. You might say the preference is towards “government by the most capable” as opposed to a “representative democracy”. As an advisor I do see it as my role to help increase some form of participation in decision making, and to do this there are a number of principles that I follow.

One principle is that it is very important to just observe how the family members make decisions today. What is the natural decision making process of the family? If I am helping the family to improve its decision making process, from experience, “evolution is better than revolution”. Small incremental changes are more likely to work than radical change. And when working with families, the timing often has to be right also.

Second, you have to ask, what kind of decisions are you talking about? It is always very useful to go through the process of defining the different roles that are present in the family enterprise, and asking the question of “who makes what decision”? In other words, are you talking about, for example, the family council level, the ownership level, the board level, the management level? The family council level may be about inclusive decision making, while this would normally be inappropriate at the management level. So you ask, who makes what decision, and it is also very important to have good boundaries in place between different roles.

In summary, as an advisor you could say my role is often one of marrying together a “representative democracy” with what Aristotle defined as an “aristocracy” – meaning rule by the best and most qualified; while encouraging the inclusion of an advisory board, so that there is also some objective third party input.



AJR: What are the problems that can happen when this is not the case and just one person makes the decisions?

AJR: This all comes down to family governance issues, how does a family start to formulate a family governance plan?

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CS: Very often the model for Asian families is that it all starts with a sole decision maker. The first generation wealth creator in Asian families will make all of the decisions concerning ownership and management of wealth as well as in the family system.

The problem with concentrating decision making authority in the hands of just one or a few more talented family members – the pure “aristocracy model” – is best seen over the long term. Once you are into the second and third generations of an Asian family, ownership becomes more important than management and Asian family enterprises fail because the outside shareholders cannot make decisions together and the outside shareholders lose emotional commitment to the family firm. No matter how talented and competent the leader in the management role, once the wealth creator has left the scene, success comes down to the ability of that leader to learn accountability to the outside shareholders, and keeping them engaged and sufficiently informed so that they can make good ownership level decisions when required. Owners need a forum so that their voices can be heard. It’s also critical in my view that there is a fair “exit plan” mechanism in place.

CS: I often think of the story about the six blind men standing around an elephant and think that families are often like this. Every one you talk to can have a different perspective on the family enterprise and on family relationships. It’s hard to be objective if you are one of the family members. Therefore when I start working with a family on their family governance plan, I start by conducting private and confidential one on one meetings of each of the key family members. From these one on one meetings, a picture emerges of the family character and the specific issues the family has to work on. I may then provide them with a written feedback report that lists the issues that have been raised. The family can then form a task force that will meet to start discussing these issues. But not straight away.

One principle that is important is that the family should first agree on process, i.e. how it will make decisions, before it dives in to tackling specific questions. A second good rule of thumb is that families should work on the easy tasks first, before moving on to gradually more difficult questions. A third principle is start by looking at what I refer to as the foundation issues such as shared family values, vision, mission and goals. The answers that a family comes up with on a specific question (for example, about succession or about risk level) should be double checked through the filter of the agreed values, vision, mission, goals etc.



AJR: How does a family governance plan help the family make effective decisions and how often should this be reviewed and adjusted annually?

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CS: First, it helps by the family going through the process of defining roles and agreeing upon “who makes what decision”. For example, is this a shareholder level decision, or has the CEO got sole discretion on this one?

Second, one of the goals of a good family governance system is to ensure that the family respect the boundaries between family and business, and between ownership and management. For example, decisions in the business sphere are better if they are made wearing the “business circle hat” and the family stakeholders know that such business circle decisions are not going to be made wearing the “family circle hat”.

Third, by encouraging a process of ongoing meetings of different forums, e.g. regular family council meetings and an annual family assembly meeting for the whole family, by bringing in the concept of a safe environment, by teaching the family members listening and better communication skills, by putting in processes for resolving conflicts in the family, the end result is better relationships and more mature behavior within the family. This does not happen over-night but at the end of the day, a family governance system should really come down to improving the relationships within the family.

How often should it all be reviewed? There should always be the flexibility to make adjustments. A governance system should be an ongoing organic process. Going back to the idea of evolution is better than revolution, a governance system for a family needs to be practical and take into account the reality of the way the family functions today, but with a “stretch goal”. I would be thinking “what is the next incremental step” that this family should take?



AJR: How do families involve through marriage or adoption non-blood line family members into the process?

AJR: How do families incorporate a family council into the family governance plan?

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CS: Every family is different but in general many Asian families have a bias towards saying they will not include spouses who have married into the family (“In Laws”) in family meetings organized to form the family governance system.

I think the American way would be to include In Laws, and adopted children, as members of the family assembly and would allow each member of the family assembly to have one vote. The American model is usually that the family assembly is the “legislative branch” of the family and that it gets to appoint members to the family council and to vote on whether to approve family policies or not.

In contrast, with larger Asian families, they may provide for a family assembly which includes In Laws, but it will usually be defined as a non-voting body. It may meet once a year for updates on the business or the investments, and for family bonding, but it will not get to appoint the family council and it will not get to vote on family policies.

However, with my own clients, I try to get them to think whether they can go further than this. For example, I ask them whether they would consider giving the family assembly (and therefore the In Laws) the right to make decisions about family values, or the right to set policy on say, the family philanthropy. I am looking for more of a half-way house between the American way and the approach that large Asian families would tend to take if left to their own devices.

CS: This is a good follow on from the previous question. You can say that a family council is defined by the role the family agree on for the family assembly. In the US model, with the family assembly as the legislative body, the family council becomes the family executive body – it carries out the tasks that the family assembly has decided on. Asian families prefer if the family council is given the authority to set policies for the family and agree on the terms of family agreements, even to determine amendments to the family constitution. The family council for Asian families may still be a body made up on a branch representation basis, but the family council members will not be elected by the family assembly.



AJR: How early do you recommend engaging the younger family members into this process and how?

AJR: Tell us about a family constitution?



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CS: One of the principles for creating family governance is that the family should get to create their own rules. As mentioned, another principle is to have a look at where the family is today, and to come up with a system that offers an evolution from that point, but that is not too far away from it.

I have seen some families that include all family members above the age of 20 in their family meetings and give them a voice in the creation of family policies and the family constitution. I have seen other families that are happy to have younger family members educated on family policies and plans, but which do not yet give them a role in policy or rule creation.

In many Asian families there is a communication gap between generations. This gap can be bridged by making sure that the younger generation are at least kept informed and are educated about the family governance system, and that from time to time they have their own “next gen” forum.

CS: I follow the approach described by Barbara R. Hauser, author of the book, *International Family Governance*, and I make a distinction between a family constitution, family policies, and meeting resolutions passed by a family.

I believe family policies are very important. When I am working with a family I find that I tend to start by getting them to work on a number of family policies that are going to be relevant for their specific circumstances. Policies are written explanations of how the family agrees to approach a particular issue or question. For example, what is the family policy with respect to compensating family members who work in management roles? What is the policy around distributions? What is the policy about exit?

Resolutions are even more specific. Resolutions are the things the family members talked about at a family meeting on a particular day. They create a record of the meeting and of the commitments that the family members agreed upon at that meeting.

Family governance can be thought of in terms of Purpose, Policies, Processes and Structures. The family constitution would define the Purpose of the family. It would define the governance Structures for the family, e.g. the family assembly and the family council and other committees. The constitution also defines the Process for making family policies – and joint decisions in general - but it is more flexible to have the Policies separate from the actual constitution.

Finally, the family constitution can be thought of as a tool for helping the family to make decisions together. As a decision making tool, the family might want to include in their constitution specific processes and practices the family can employ to help them make good strategic decisions together. There should also be a process defined for dealing with conflicts that arise in the family, either in the constitution itself or in a separate conflict resolution policy.



AJR: How do families preserve their history and culture yet also adjust to changing conditions and social norms over generations?

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CS: The short answer is that families change through communication. Families need to learn the art of striking a balance.

To preserve the past history, families need to ensure that their family stories are told at family meetings and other family forums.

Many Asian wealth creators will attribute their success in creating wealth to their personal belief in a set of traditional Asian values. They often feel very strongly about these traditional values. I have seen families where the younger generation can however get their parents to change their mind, but often the key is that the younger generation need to be respectful, but persistent in their call for a changed approach.

If there is a communication gap between generations, often family elders are a way to help bridge this communication gap. In fact, family elders are another essential element of a governance system for an Asian family, and the concept is always readily accepted here. Family elders are often trusted uncles or aunts, but do not have to be blood relations. Family elders can help both sides see the perspective of the other generation.



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Angelo J. Robles is the Founder and CEO of the Family Office Association, a global membership organization of single family offices. Mr. Robles has written several books and numerous independently published articles, and has been quoted on family office topics for Bloomberg Radio & TV, Thompson Reuters, Institutional Investor, Registered Rep, HFM Week, Investment News, EurekaHedge, The Luxury Institute, The Greenwich Times and many others.

Mr. Robles had a successful career with positions at Arthur J. Gallagher & Co., UBS and New England Financial. He is the founder and past president of the New England chapter of the Hedge Fund Association, and was an Internet pioneer in retirement planning for Fortune 1000 executives with 401KRollover.com and IRARollovers.com, both of which he founded. Mr. Robles is a member of the Princeton Council on Family Offices and the NYU Stern Family Office Council.

Christian Stewart founded Family Legacy Asia in July 2008 to provide independent advice to Asian families on best family and family business governance practices. He works with family enterprises in Asia helping them to improve communication, plan together for the future, and resolve differences, by helping the family to form their own family council, family constitution and family policies.

Christian also advises families on trust structuring and administration issues. Prior to founding Family Legacy Asia, he was a Managing Director and the Head of Wealth Advisory in Asia for JPMorgan Private Bank, where he ran JPMorgan's trust structuring business in Asia.

Prior to joining JPMorgan, Christian was a Partner in the tax practice of PricewaterhouseCoopers in Hong Kong where he ran their Trust and Private Client Group.



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