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The importance of governance in family offices

Insights - 11/06/2020

Families come in all shapes and sizes and it follows that there is no one size fits all approach when it comes to establishing an effective governance framework for a single family office (being a private organisation that manages the investments for a single wealthy family) or a multi-family office (being a private organisation which looks after the investments of multiple families). Every family office is different and reflects the needs and interests of the family or families that it serves. Nonetheless the research is clear that early investment in an effective governance structure will likely pay dividends for the family in the long term.

How problematic are weak governance standards in family offices? What are the main types of failings?

Corporate governance for a company is fundamentally about the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising management of the business and reporting to shareholders on their stewardship. Generally the board's actions are subject to laws, regulations and shareholders in general meeting. Plainly these principles of corporate governance can be applied equally to a family office albeit they need to be tailored according to the family's needs and requirements.

Weak governance standards in a family office can be disastrous. It is not uncommon for family offices to be established by the founding patriarch or matriarch who has generated the wealth and continues to make all the key decisions both on the family business and the family. Ultimately the death of the founder can be a pivotal moment. If the family office has not planned for the future and interposed an effective governance framework there may well be family discord and with no governance framework in place there will be no effective means by which the family can make decisions on key issues after the pivotal event. The consequences here can be dire – loss of investment opportunities and ultimately the family office breaking apart. Long term forward planning is absolutely key and there needs to be an appropriate focus on succession planning.

Family offices may be more susceptible to weak governance on the basis that some may fall outside of the regulated sphere, laws and codes of practice which apply to other companies and entities which dictate that appropriate corporate governance is implemented. In Jersey we anticipate closer regulation of single family offices which operate in the unregulated space in years to come.

What measures could / should be taken to improve governance practices in family offices, including in terms of board structure? What hurdles are there in the way of enacting such changes?

This is a difficult question as every governance framework will need to be tailored to the particular family and its requirements. Family offices can vary from, say, one founding patriarch or matriarch who possesses the skill base to manage his or her assets in the context of a small family, to a multi-family office looking after the investment needs and requirements of multiple families who might be mutigenerational and spread across the globe and holding multiple and complex asset classes. The governance framework adopted will need to match the requirements of the family office and once established regularly updated to meet the changing circumstances of the family and asset class.

One of the great advantages of single family offices is their ability to make decisions quickly and implement those decisions straight away without going through layers of internal procedures and consent mechanisms. However, there needs to be a balance with some degree of checks and balances in place.

At its most basic for a single family office governance will focus on how decisions are made by family members and how those decisions are implemented (i.e. akin to a board of directors). Thought will need to be given as to whether external professionals (outside of the family) are engaged to take forward key functions (e.g. investment, accounting, legal) and the governance framework will need to address how key decisions are taken forward between the family members and outside professionals.

Family governance is wider than traditional corporate governance in terms of encapsulating a number of "softer" values which nonetheless are vital to ensure the long term success of the family office. If the family office is going to last the test of time the family needs a cohesive mission and vision for the future. This is likely to be driven by the family's culture which may have evolved during the growth of a successful family business. This mission and vision are often documented in the form a family charter which acts as an aide memoire for family members and is continually evolved and adapted over time. A family charter on this basis helps to generate a working culture in the family and might cover matters such as family values on business decisions, family member roles in the business and/or family office, dispute resolution, financial education and philanthropy.

In terms of hurdles individual family members may and often do have material differences which will likely need to be resolved in order to bring about change. These differences may be emotional rather than purely commercial. A very important component of family governance for a family office is to put in place an effective dispute resolution mechanic so differences between family members can be resolved fairly and quickly.

How much protection is there for whistle-blowers in the Channel Islands at the moment, and could improvements in that area have an impact on family office governance too?

In Jersey there is no provision in the law which protects whistle-blowers outside of the general obligation for employees to report their suspicions under the money laundering legislation.

The key is creating the right culture in a firm where employees feel confident in reporting colleagues who are involved in wrongdoing, that their claims will be properly investigated and dealt with if true and that they will not be ostracised or face recriminations for reporting these issues. This obviously starts at the top in terms of the behaviour and attitude of senior management to ensure that they operate in an open, honest and transparent environment and the appropriate policies, procedures, systems and controls are in place to facilitate whistleblowing.

What are the challenges of succession planning, in terms of family office governance?

Succession planning is paramount to the long term preservation of wealth but it comes with a number of challenges. It takes time to formulate and establish a strategy to facilitate an orderly transfer of decision-making responsibility from a founder to the next generation and beyond. Many founders cannot envisage anyone other than themselves taking key decisions and simply avoid making these fundamental decisions preferring instead to focus on the short term success of the family business or investment of assets. Likewise many founders find it difficult to prefer one child over another when it comes to ear marking future decision makers at an early age. The next generation family members need to be trained and to have the right skills to make these decisions going forward which all takes long term planning. The next generation ideally also need real life experience if the family office is going to thrive long term. What can help here is having a clear family culture and values clearly documented in the family charter on family participation in the business and/or family office so all family members understand and are aware of the family's stance on family member participation as early as possible.

Are there wider benefits to boosting governance in family offices, beyond avoiding corporate failure?

Establishing a robust framework of family governance is plainly essential to ensuring the long term success of the family office. Aside from avoiding corporate failure by introducing a robust system of internal controls family governance has the following benefits:

- it formalises the chosen ownership structure for the long term;
- it creates a workable framework between family member shareholders and professional executives managing the family office;
- if no governance framework at all family office may struggle to borrow or attract outside capital;
- it should provide a clear mechanism for resolving disputes amongst family members;

- it helps embed the family culture for the long term and in so doing the family mission and vision becomes engrained;
- it provides a framework for making decisions and the key factors to consider when making decisions;
- it may improve investment performance if there is a consistent strategy based on the family's culture and values taken forward, compared with a random ad hoc investment strategy

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