

Family Governance: A Key to Maintaining Your Legacy

There's an old adage that goes "In the absence of information, we tell ourselves stories."

Without sufficient information, the members of your family may be reduced to telling themselves stories about what the family's intentions and motives are. And when you're setting up a legacy plan that extends across generations, it's vital that there is ample information available to everyone and to create transparency across all members of the family. That's the role of a family governance plan.

Effective family governance empowers a family to govern its wealth and enterprises as a cohesive unit. It sets forth how a family will make collaborative decisions and what roles and responsibilities exist for each of the family members. By creating an explicit set of parameters that are agreed to by all, a good governance plan limits room for misinterpretations and allows the positive, accurate information to flow.

INCREASED NUMBERS = MORE COMPLEXITY

In larger family systems, it can be challenging to maintain effective communication across all members. Breakdowns in communication can often lead to distrust.

In addition, it is the nature of families to grow over time. As the family includes new members, a more diverse set of values, goals, and needs will emerge, often leading to the lack of unification or shared purpose. Things that were once accomplished easily may now become difficult at best. For example, decisions previously made by the patriarch and matriarch may eventually need to be made by multiple family member stakeholders.

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UNITING AROUND SHARED PURPOSES

It can be overwhelming to know where to start in setting up the right governance structures, policies, and procedures for your family. An important first step is to collaboratively establish your family values, vision, and mission.

- Your **values** are guides to your internal behavior. They guide you in making decisions. They are foundational in establishing who you want to be together as a group.
- Your **vision** is the driving force behind your family. It's the ultimate aspiration that unites you. It is your version of an ideal future, and it will give people a reason to join you.
- Your **mission** keeps you on track. It encompasses the steps you will take to achieve your vision. Your mission tells people: "This is what we plan to do for you and why."

Each of these elements, working in concert with one another, define your shared purpose. They answer: "What are you uniting for and around? How do you plan to be together? Why?"

WHAT GOVERNANCE LOOKS LIKE

Once your family has developed its shared purpose, there are several types of governance structures, policies, protocols, agreements, and decision-making frameworks to consider. Each family is unique, so what is right for you may not be right for another.

The most utilized form of family governance is the constitution, a document that sets forth broad principles

and policies in areas that are identified by the family as needed. It's recommended that a constitution include at least the following five sections:

1. Values, vision, and mission
2. Leadership structure
3. Decision-making framework
4. Communication standards
5. Process for amending the document

It's important to have these agreements in writing. As your family expands and new members join, it will be easier to convey your vision with a formal written document.

SPECIAL CONCERNS FOR BUSINESS OWNERS

Keeping your family governance separate from any operating business governance is also a key to success. One example: Many families choose to set up family councils to formalize a leadership structure that is responsible for upholding the family constitution and representing the family's interests with various boards of directors that connect to operating businesses. Other forms of governance you may want to implement include things like a code of conduct, a social media policy, shared use agreements for vacation homes or aircraft, a risk management policy, or other various agreements.

To learn more about how you can incorporate family governance into your wealth planning, reach out to your Baird Financial Advisor.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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