

# Family Office Insights

## The Role of Governance Frameworks in a Family Office

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In a world where the behaviour of businesses, their customers and their investors is driven not only by ever expanding regulation, but also increasingly by adherence to social and/or environmental norms and conventions, effective governance is probably more critical to the profitability, sustainability and reputations of businesses than it has ever been.

Whilst for many organisations the corporate and governance structures will to an extent be mandated by law, regulation and shareholder requirements, in the family office environment there can be considerably more flexibility and, accordingly, a variety of ways in which wealthy families or individuals constitute themselves and govern their activities and asset management strategies.

Whilst there is no such thing as a typical structure or system, at one end of the spectrum, one might find examples such as that of a single wealth generator who possesses the requisite expertise and contacts to manage his or her assets him or herself, or a small family comprising a limited number of beneficiaries where the risk of conflict in decision-making is minimal. In such scenarios, it would not be surprising to find such a person or family choosing not to commit to anything involving a rigid governance structure, with instead all decisions relating to the management of the family's wealth being made by a small pool of people, following consultation with other family members and external advisers on an ad hoc basis. At the other end of that spectrum, one might find a large, multigenerational and/or geographically disparate family without financial expertise or with perhaps a complex, diversified asset base. In that case, a more institutional-looking structure employing non-family professionals with transparent and well-defined governance and executive procedures may better serve and protect the family members' interests.

### Establishing the "Right" Approach

First of all, there will rarely be a uniformly right or wrong approach. No two families or family offices are the same and, therefore, trying to simply replicate a tried-and-tested structure without some well thought-out measuring up is inadvisable. What works for one family may not work for another.

We see all manner and range of structures and approaches adopted with every degree of success. Some families will take the view that complex, corporate frameworks with detailed, formal documentation and administrative procedures are pre-requisites for a successful family office; however, as well-intentioned as this might be, it can be counter-productive. Indeed, whilst organisational rigour will have its place, one advantage that family offices have as compared to institutions or corporates can be their ability to make decisions and execute quickly; unnecessarily convoluted internal processes may impact on this. The approach adopted truly does have to be tailor-made for the family in question, playing to its strengths and recognising and responding to its weaknesses.

The governance system itself can be multifaceted and operate at different levels. It might be focused on how decisions are reached among family members and who is responsible for implementation or, where a separate family office entity has been established or external specialists engaged, it may also dictate the interactions between the family and those individuals running or working for the family office and lay out how investment decisions are taken and what the investment mandates are. In some cases, it may also encapsulate some of the family's "soft" objectives, such as social, philanthropic or political goals, ambitions of the family around creation or preservation of legacy, the involvement of family members themselves in management, and possibly succession planning by way of involving and inculcating future generations.

Understanding the aims and purpose of the family is really, therefore, the fundamental question that needs answering before anything else, and finding that answer can be as straightforward or as difficult as the family makes or allows it to be – a large family may be completely aligned; conversely, a relatively small family may have starkly differing views on certain aspects. Without an underlying consensus, however, no amount of intricate governance structures and legal documents or dispute resolution systems will be enough to guarantee a functional and effective operation.

Once the overall aims and purposes have been established and articulated, and with buy-in from the relevant family members and beneficiaries, steps can be taken to find appropriate governance structures to achieve those aims and then implement them. This will, of course, then also depend heavily on the particularities of the family itself, who the intended beneficiaries are and what extent of participation they each expect, as well as whether or not non-family members are going to be involved, either as full-time employees or as service providers or partners.

Where individuals are brought in from the outside to work for a family office, in some circumstances, there may be a difficult balancing act to strike between ensuring that they “fit” and have the support and trust of the family members, but remain accountable and are provided with the necessary independence in order to carry out their jobs without undue pressure or influence from members of the family. Not only could interference, if exercised excessively hamper their professional performance, but it could also open up the potential for contradicting demands from different family members as well as issues around conflicts of interest and fiduciary duties. This is not an uncommon problem, and one function of a well-conceived governance structure is to insulate them from such pressures and conflicts to the appropriate degree and to provide absolute clarity for all parties about where all of their respective rights and responsibilities lie.

Depending on the complexity, putting the best possible systems and processes in place may require something to be committed to writing in the form of agreements such as a family constitution, or it might involve setting up family committees or assemblies, or even legal entities in a formal corporate or partnership structure. The central component of good governance, however, is ensuring that everyone understands their position relative to one another and what their roles and the limits of such roles are.

## Changing With the Times

As the constituents, needs and wants of the family change over time, the objectives and purpose of the family office are also likely to undergo change. It must be recognised that a structure that works well for its first two generations might struggle to cope after that into the third and fourth generations, by which stage, the process of setting an agenda and direction may be made harder by the absence of the original wealth-creating patriarch/matriarch with sole decision-making power and authority.

Whilst taking the time to put the right approach in place from the start is critical to success, it is almost as important to create a system that allows for flexibility and evolution over time – the less the family office successfully adapts and fulfils the needs of the ultimate beneficiaries, the more likely it is over time to become redundant, ceasing to serve the purposes for which it was initially established.

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