

## Introduction

Family governance is designed to promote fairness within a family and provides a structure for family cohesion and stability both for the present and the future. The family governance planning process involves the formulation of an agreed set of rules and guidelines, usually in a document known as a **family charter** or **family constitution**.

## Why do you need family governance?

The main reason is to avoid conflict within families, which can rapidly erode family wealth. By agreeing to a set of family governance rules you are fostering family cohesion, growth and future business success.

Family governance also provides a mechanism for family decision-making and dispute resolution, avoiding emotional complex and endless discussions among family members.

## How do you approach family governance?

Family governance rules must be self-created by each specific family, as they must be tailor-made to reflect a family's particular circumstances. The support of all family members is key as top down plans by one family member is usually met with resistance.

**Common issues** to consider include:



The succession to the patriarch as head of the family's wealth/business. A process for orderly succession is essential, especially when there are several candidates for the job.



Defining who is a "family member" for the purposes of family governance



Addressing issues in respect of non-lineal family members (e.g. spouses or step-children). It is common to include only lineal descendants of the patriarch as principal family members. Spouses, step children and more distant relatives can be included for specific aspects.



Resolving questions of equality between siblings, the different degrees of involvement in the family business or the ownership of non-business assets.



The role of children. Should they be included as family members, or only formally consulted on reaching their majority or some other designated age? Are the children being educated in the family business, history, culture? If yes, how?

## Setting up a family governance plan

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The first step is to **set up a general consultation within the family** to assess the desire for carrying out this exercise. This is usually achieved by having a preliminary meeting with key family members to establish the main objectives.

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**A thorough analysis of the family history, dynamics, personalities, strengths and idiosyncrasies** is needed to establish a solid foundation of your family governance plan. This exercise is usually initiated with the patriarch's views on the family and hopes for the future.

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Because of the delicate and emotional nature of these discussions, families tend to **look for third party independent advisers**, as they can facilitate consensus, propose decision, making mechanisms and vehicles, prepare governance documents and help to resolve "ad hoc" family issues arising throughout the planning process.

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Some families may have a more elaborate family governance structure, with **a separate meeting for family-owner-managers or a separate council for family shareholders or periodic meetings between shareholders, the board, and management**. But, as with everything, the simpler the structure the better it will do the job.



## MAIN ELEMENTS OF A FAMILY CONSTITUTION

- Statement with the general purpose of the document. E.g “it is the patriarch’s wish, with the support of all current family members, to promote family harmony and to provide a mechanism for the avoidance of family conflict, thereby helping to safeguard the family’s wealth and well being....”
- Structure of the family council (if needed) as the family decision making authority, including operational rules.
- Proposals to create or liaise with any advisory boards or other related family entities e.g. family office, trusts, foundations, etc.
- Protection statement of the fundamental individual rights of family members that are not to be infringed.
- Procedures for family members to raise issues or make complains.
- Non compliance-procedures and consequences.
- Employment conditions in the family business, management selection procedures, restrictions on transfers of share holdings of family business.
- Ethical and anti-bribery principles and values.
- Procedure to amend the Family Constitution.

## THE FAMILY COUNCIL

- A Family Council enables a family to agree and create governance rules and guidelines to regulate the interaction of the family members and the business.
- A Family Council may be comprised of senior family members, and may, in large families, be a “representative council” where separate branches of the family are able to elect and be represented by representative council members.


## How can Alpadis Group help?

Alpadis Group can help you to create a family governance plan. We will:

- **Organise one to one meetings** with the patriarch and other family members to understand the role of each of them, aspirations, challenges and objectives; giving subsequent consolidated feedback to the family as needed.
- **Draft the family constitution**, a formal document which sets out the rights, values, responsibilities and rules applying to the family members and business.
- **Assess the convenience of having a family council**, an executive body comprising a representation of the family members.
- **Facilitate the organization of periodic (typically annual) assemblies of the family members**, where they will learn about the updates or changes in the business, upcoming family events or activities to promote family cohesion, charitably giving, etc.

## Don't hesitate to contact us to discuss your family plan!

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