CLEARWATER CAPITAL

Thought · Leadership

THINK18

September 2018

Wealth Insights

Family Office — Family Business Boards

As outlined in our 2017 'Intro to Family Offices', we highlighted the intentionality of structure which families bring to develop their Capital. In particular we shared that a family's wealth, and thereby risk management, should be viewed across a wide array of Capital considerations and approached with respective intentionality:

- **Human Capital**; the role each individual plays in the family and their respective development of their talents and uniqueness,
- **Intellectual Capital**; what each person knows and how they contribute to the decision making process within the family,
- **Social Capital**; what the family views as their role in society, what lasting difference (legacy) they will make and which organizations they will engage and support for the betterment of society,
- **Financial Capital**; the legal property ownership of the family … financial assets, business interests, real estate holdings, farmland, intellectual property, mineral rights, etc.

We know the Family Office, whether it be a Single Family Office (SFO), or services provided through a Multi-Family Office (MFO) / Registered Investment Advisor (RIA), provides a legal and tax framework; however, it does not define fulfillment mechanisms, tools, processes or disciplines which can only be adopted by family leadership.

One such tool is the installation of a family business board. Unfortunately, many business owners have board experiences associated with local civic or charitable organizations which are virtuous, albeit possibly limiting. These boards may be too big given their focus on fundraising and less equipped to function on strategic business governance. Additionally, the failings of governance boards can make headlines and cause one to pause regarding why they'd want to introduce such a tool. However, well run effective boards execute and can bring significant value to the family enterprise if properly organized.

Family wealth origins are often tied to entrepreneurial ventures by a founding generation (G1) and managed/developed by subsequent generations (G2+). Therefore, as Jennifer M. Pendergast captured in the book Building a Successful Family Business Board there are distinct elements which make up the planning of a family business:

1. **Family Continuity**; including the family Vision, Mission & Values,
2. **Estate & Financial Plan**; how the family business fits into the overall structure as an investment,

John W. Sleeting

John W. Sleeting, partner at Clearwater Capital Partners. As a Certified Estate and Trust Specialist (CES™) with over twenty-five years of finance and capital markets experience, John is uniquely positioned to serve a select group of successful high net worth individuals and families.

3. **Strategic Plan for the business**; how the business investment continues to evolve and create financial returns in line with objectives,
4. **Succession plan for business leadership**; is a family member or an outside party best equipped to deliver the strategic plan (and by extension the families' over-arching objectives).

The above is not meant to exclude the Philanthropic Objectives of the family; however, one must consider the Philanthropic / Social Capital aspirations as a business unto itself and have a separate board of governance with it's own charter. The charter for such philanthropic objectives contributes significantly toward the families' Social Capital vision and is independent of the legal/tax/financial tools (e.g. Private Foundations, Donor Advised Funds, or Charitable Trusts).

I am humbled to serve as Chair for a Family Holding Company Board as a non-family third party. I've been able to work closely in the evolution from an advisory structure toward the fiduciary governance desires of the family. I attribute the progress thus far to the patriarch's view and commitment toward stewardship as a virtue. The Vision / Mission / Values of the family supersedes roles and titles and focuses upon the families' continuity—both during life and for the lasting legacy impact desired.

With the stewardship perspective crystallized (that a business is, and should be, about more than the founder), there is freedom to give up self-designated roles in pursuit of a grander vision regarding the overall strategic objectives of the business entity on behalf of the family. In many cases, introducing independent individuals from 'outside' the family (and/or employ) assists in bringing perspective, asking evocative questions, sharing technical insights, or assisting with family member mentoring… all roles of independent directors.

As families continue to integrate their legal estate & financial planning, additional questions are raised about future succession. This is a very sensitive and delicate subject as it addresses the question about who is eligible for the job; and, just because someone is a family member doesn't make them the best person to execute the business strategic plan. Furthermore, if there are multiple people who are qualified, then making compromises can not only be detrimental to the business, but also hurt feelings may be inevitable. Emotional influence from family members can lead to inertia in decision making, sub-optimal conclusions, or outright bad decisions. Intellectual honesty, including diversity of perspective, is required for any business to compete, thrive, and generate the financial capital to be used to achieve family objectives. If a board has tunnel vision and is not in tune with the needs of family members, individually and collectively, that board may not truly be serving the range of needs within a family.

To underscore, it is the <u>families' objectives</u> that matter. Pendergast shares the insight that the Board should be more fiduciary than advisory in that they lend formality to the agenda and decision making process although they all serve at the pleasure of the family shareholder. Further, the board should be comprised of individuals who have the intellect to add insights to the discussion for improved decision making while at the same time being supportive of the family.

From firsthand experience, a board convened around the aforementioned characteristics facilitates an organizational evolution toward strategy (over operations), collaboration, scrutiny, feedback, encouragement, and value creation.

The commitment of a family to introduce a board focused upon governance needs isn't to be taken lightly and expectations for immediate success should be tempered… a commitment for the long term is required.

John W. Sleeting
Partner

P.S. During September, I will be attending Pepperdine Universities' program on Financial Management for the Family Office; and, will be joining the Family Office Exchange for their annual session of the Integrated Wealth Advisory Council.

CCP | CLEARWATER CAPITAL PARTNERS

IMPORTANT DISCLOSURES

THIS COMMENTARY HAS BEEN PREPARED BY CLEARWATER CAPITAL PARTNERS. THE OPINIONS VOICED IN THIS MATERIAL ARE FOR GENERAL INFORMATION ONLY AND ARE NOT INTENDED TO PROVIDE OR BE CONSTRUED AS PROVIDING SPECIFIC INVESTMENT ADVICE OR RECOMMENDATIONS FOR ANY INDIVIDUAL.

ALL ECONOMIC DATA IS DERIVED FROM PUBLIC SOURCES BELIEVED TO BE RELIABLE. TO DETERMINE WHICH INVESTMENTS MAY BE APPROPRIATE FOR YOU, PLEASE CONSULT WITH US PRIOR TO INVESTING. INVESTING INVOLVES RISK WHICH MAY INCLUDE LOSS OF PRINCIPAL.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of September 2018, and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by Clearwater Capital Partners to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy.

www.ccpwealth.com (847) 841-8650