

Family governance and succession

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Family governance is one of the most valuable contributions of the *family office*, and one of the fields in which the Geneva tradition of stewardship, described in Part B, finds a contemporary expression. Large family fortunes are rarely passed on beyond the third generation without an organisation that defines roles, decision-making rules and shared values.¹

The instruments of family governance are varied: a family charter, which sets out the values and the rules; a family council, which brings the members together and takes the important decisions; an investment committee, which defines the strategy; a training programme for the younger generations; rules for entering and leaving the common estate; and mechanisms for resolving conflicts. These instruments are combined with the legal structures — holding companies, foundations, trusts — and with succession planning, the elements of which were presented in Chapter V.

Geneva practitioners, whether bankers, lawyers, fiduciaries or specialised advisers, support families in these processes. They bring comparative experience, gained with many families of different cultures and countries, and a neutrality that eases delicate discussions. The transfer of wealth between generations, which will be considerable over the coming decades, will make this support a major line of business for the financial centre.

The succession of family businesses raises particular questions. The separation between ownership, management and governance, the arrival of outside executives, the liquidity offered to members who wish to exit and the taxation of the transfer all call for long-term planning. Geneva, which is home to the head offices of international family businesses, notably in commodity trading and watchmaking, has recognised expertise in this field.

Worked example. A family owns a business valued at CHF 300 million and financial assets of CHF 100 million. Three family branches, comprising twelve members of the third generation, share the ownership. Without governance, every decision — dividend, investment, sale, appointment of an outside executive — requires the agreement of twelve people with divergent interests. A charter, a family council of three elected members and a mechanism for buying back shares at a determined price make it possible to take decisions within a few weeks and to offer an exit to those members who want one. The figures are fictitious.

1 Notes

1. The saying “shirtsleeves to shirtsleeves in three generations” appears at the beginning of the twentieth century and is often attributed to Andrew Carnegie without appearing in his writings; the 70 per cent failure rate of successions cited by Roy Williams and Vic Preisser (Preparing Heirs, 2003) comes from a study by John Ward (1987) of 200 manufacturing companies in Illinois between 1924 and 1984, whose definition of “failure” includes sales and buy-outs; see the critical analysis by Westreich (westreich.substack.com, “Do Rich People Really Lose Their Wealth in Three Generations?”). ↩

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