# How family governance can save your real estate business

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Some readers may ask themselves what family governance is in the first place and why they should even care about it. Let's dive into it.

## Family Governance

**What is family governance?**

Family governance is simply a formalized system for making joint decisions that looks for the common denominator of multiple needs and opinions. Family governance can be simple or elaborate, and even if it is not formally written down, most families have their own ways of coming to a decision.

For example, how your family decides on the next holiday destination is family governance.

**Why should you care about family governance?**

Governance is informal in many cases, which typically works fine for smaller families with moderate wealth management needs. However, some families — especially entrepreneurial families or families with multiple active generations — require a formalized process. When there is a business, extreme wealth or some other legacy to be passed on, some families feel the need to be more systematic to guarantee just and equitable treatment of all family members and to ensure long term rewards for future generations.

**Why is family governance relevant in the real estate investment space?**

Real estate investments are essentially like a business. The complexity of your business depends on the scale of your investments, and it will have an effect on your family.

Consider what would happen if you got hit by a bus tomorrow. Even if none of your family members have ever helped manage or control your holdings, they would have to deal with those matters in the event of your death.

Would they have sufficient knowledge and skills to handle that situation? Would they even know what they have to manage? Do they know anything about your real estate business?

Family governance can ensure your family knows what your real estate business is all about so they can make informed decisions when you no longer can.

If you operate a real estate business, you are in the same boat as every business owner, and business owners are probably more impacted by family governance than any other professional group.

What happens to your business once you're no longer present is largely determined by whether or not you managed to establish a successful family government and succession structure while you were alive.

## The traditional 3-circle model

Much has been written about the three dimensions of a family governance structure — family, business and ownership.

However, the prevailing three-circle model of the family business system, as developed by Renato Tagiuri and John Davis at Harvard Business School in the 1970s, is not entirely complete.

It neglects the aspect of wealth and lifestyle management. Their model might be valid from a business point of view, but it lacks that fourth circle from a family point of view.

The family office, as an entity to professionalize wealth and lifestyle management, completes the dimensions.

The extended three-circle model then becomes a four-circle model.

## The 4-circle model

In this model, all four systems interact and partially overlap with the other circles. All four systems need to be moderated and managed, and they have different components and characteristics. They also need to interact.

Together, they form the family governance universe and can form the basis for a governance and management structure.

## Extended family business system

### Family

The term "family" needs to be defined by each family. Who is deemed to be part of the family? In most cases this can be quite obvious, but it does make sense to revisit this question in a more formal context.

### Business

The family business is an entity that needs to be managed with a different focus than the family itself. There will be an overlap, but it helps to view this separate from the social family structure to allow for a more professional and rational approach.

### Ownership

Ownership of the family business needs to be looked at from a different perspective than the management of the business.

Ownership does not equate to management, and management does not equate to ownership. It is useful to have a clear distinction of roles, rights and responsibilities. This is the area where any shareholder agreements are relevant.

### Family office

In more mature family business situations (i.e. second generation and beyond), there is likely to be additional wealth managed outside the core family business.

In some cases, this is managed by a dedicated family office. In addition to wealth management tasks, a family office might also take care of lifestyle and secretarial tasks such as travel arrangements, schooling and education, medical management, household management and more.

## Final thoughts

Looking at the four circles makes it obvious that a shareholder agreement on its own cannot establish family governance, despite what many family business owners seem to believe.

The family business system is far more complex; each dimension requires its own set of rules and institutions.

If you’re in the real estate business with nothing in place yet, the prospect of getting everything set up and running smoothly may seem daunting.

Looking at family governance as a process rather than a result can help. My advice is to get started with the following small steps:

- Start with arranging an annual family reunion.
- Write down your family history for yourself and your immediate family.
- Share that history with your extended family, and ask them to contribute stories, too.
- Tell those stories at your annual reunion.

- Start drafting a written strategy, and develop an agenda of next steps.

Each little step is progress, and the more steps you take, the sooner you'll notice positive results.

There is no reason to delay the process if you look at it as that — a process.

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