



OSWEGO  
PRIVATE WEALTH MANAGEMENT

“We, the Family”:  
The Benefits of a  
Family Constitution

# Facilitating Family Harmony

A family constitution can be an effective tool for dodging serious conflicts and facilitating agreement among family members. It can help family members address their concerns and preferences constructively. Family constitutions often lay out the future directions and actions the family intends to take.

One of the key goals of a family constitution is to prevent the types of family conflicts that can tear families apart and diminish fortunes. The goal is to detail how the family will deal with dissent. When the specific methods for managing and dealing with family conflict are well documented and described, a family can potentially be very effective at reducing infighting. The overarching goal is to head off conflicts by promoting communication and striving for consensus among family members around their core principles, values, and long-term intent.

Family constitutions recognize that there is contentiousness in nearly all families—and they aim to spell out specific ways a family can effectively address conflicts that are almost certain to arise over time and across generations.

**Important:** While the family constitution is a written document, it is only a set of guidelines and prescriptions. It is not, in most cases, a legal and binding document that must be adhered to.

## CREATING AN EFFECTIVE CONSTITUTION

A family constitution should, among other things, help your family equitably address issues around its wealth—which might include assets such as an operating business and properties (real estate, art) as well as invested wealth and other savings.

### **Specifically, a constitution should specify:**

- *How the wealth is to be used by family members*
  - *What limitations there are on how the wealth is spent, invested, and donated.*
  - *Who makes the decisions and how these decisions are made*
  - *How family members can provide input or impact the decision-making around the distribution and use of the wealth*
  - *How family members are prepared to perpetuate family values and manage the family wealth*
- In developing a family constitution, it's necessary to gain consensus among family members. Without broad-based agreements, the family constitution will likely not even be written—and if it is, will very likely be contested. Ideally, a family constitution would be written when family relationships are strong (or at least not strained), making consensus more likely. All parties should be motivated to reach agreements and develop shared solutions.*

Note: There's nothing inherently good or bad about any of the personality types. Each one simply reflects someone's core beliefs and ideals about money and wealth.

## GAINING DEEP KNOWLEDGE

When it comes down to it, you want to see whether an advisor takes the time to truly understand you—as a person, a member of your family, an investor, or whatever the case may be.

One of the signs that can indicate that an advisor is client-centric is if they employ a process that helps them see you as a total person across many different areas. For example, consider the following form of client profiling that homes in on seven areas of a person's life:

- 1. Values.** What is truly important to you about your money and your desire for success, and what are the key, deep-seated values underlying the decisions you make to attain these things?
- 2. Goals.** What do you want to achieve over the long run—professionally and personally, practically and audaciously?
- 3. Relationships.** Who are all the people in your life who are important to you?
- 4. Assets.** What do you own—from real estate to investment accounts, restricted stock to retirement plans—and where and how are your assets held?
- 5. Advisors.** Whom do you rely on for advice?
- 6. Process.** How actively do you like to be involved in managing your financial life, and how do you prefer to work with your valued advisors?
- 7. Interests.** What are your passions in life—including your hobbies, sports and leisure activities; charitable and philanthropic involvements; religious and spiritual proclivities; and children's schools and activities?

## **FAMILY CONSTITUTION WILL INCLUDE THREE KEY SECTIONS**

### **The reasons for staying together**

This details the rationale for managing the joint capital and the benefits of maintaining family cohesion. Factors such as love and concern, along with financial considerations, are usually part of this section.

### **Who is defined as family**

As families become larger, sometimes decisions are made specifying who is family and who is not. For example, some families exclude those who marry into the family.



### **The ideology of the family**

This spells out what the family stands for, including its values and objectives



# Getting Help



Gaining consensus requires openness and cooperation among family members. To that end, many wealthy families use facilitators to help them work through the relational issues and the emotions that are often attached to the financial issues. We have seen that conversations around family money can get very intense, as they often overlap with family history and any acrimony that exists. Social and political differences also make conversations around family money more complicated. A neutral third-party facilitator can help keep tensions at bay and keep family members focused on agendas instead of anger.

## An Option For Many



In general, a well-crafted family constitution will accomplish several objectives:

- Memorialize a family's principles and values.
- Establish checks and balances among different interests, as well as ways to address conflicts and communication protocols.
- Promote accountability of family members.
- Ensure flexibility so the family can adapt to change.
- Provide disenchanted family members with a viable means of exiting.

Best of all: Even though family constitutions are a strategy often employed by the Super Rich, you don't need millions of dollars to create one for you and yours.

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