



Passing wealth and wisdom
successfully from one generation to the next

Generational transitions



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MAKING a substantial amount of wealth is never easy. Even in a growing region with low taxes and a pro-business culture, there are only a few people who succeed in developing a family fortune.

Even fewer manage to retain that wealth over generations, with far too many families falling prey to the many risks that lurk in the underbrush. As one expert said: “There are always centrifugal forces operating to tear a family and its fortune apart.”

It need not be this way.

One of the major – and entirely manageable – challenges to the preservation of wealth over time is the complex task of transferring wealth, authority and family leadership from one generation to the next. While every family leader will face a number of economic and financial challenges during his or her tenure as part of a generation of family leaders, there is only one major forward generational transition to address.

This actually makes it harder for most families, as they will have no experience in generational transition, except the one which brought them into their current position. If the family wealth is new, as it is so often in Asia, there may be no precedent at all. To make the challenge even tougher, the (often) autocratic personality who may have been brilliant at creating a fortune may not be well-suited to plan and prepare his family and his fortune for the future.

There are many issues that appear frequently in studies on the loss of family money, in particular due to unsuccessful generational transitions. The most common recurring themes are:

- failure to have a strategy for generational transition (70 per cent of wealthy families)
- failure to prepare the next generation adequately (including family values and culture)

- failing to address the transfer of intangible assets (networks and relationships among them)
- lack of clarity in estate planning and asset structuring
- lack of a role and sense of purpose for retiring family leaders

Of these, the first is the broadest and, perhaps, easiest to address. It is a long-standing truism in the business world that “Hope is not a strategy”, and those well-intentioned family leaders who “hope things will work out”, or “leave it to them to sort out” may be abdicating the responsibility, and the opportunity, to keep together the family and fortune it took so long to develop.

One interesting question to ask ourselves is: How many hours a week do we spend doing business and making money, and how many hours a week do we spend preparing the strategy and the next generation to receive and preserve what has been created?

Successful response

Many of the answers to the challenge of successful wealth transfer across generational lines, not surprisingly, lines up with the challenges mentioned above.

The checklist for a successful generational transition (GT) of wealth would always include, as priorities:

- having a documented strategy and a plan to implement it
- preparing the heirs well, and well in advance
- ensure all assets, tangible and intangible, have a home in the next generation
- drafting clear plans for the distribution (or retained concentration) of all assets

Brief note on succession plans: While many families have the luxury of a planned transition, others do not. Unexpected death, retirement, disability or other issues can require a transition to be triggered well in advance of expectations. To take this into account, families would be well advised to have a short-term succession plan (the “20 second plan” for immediate unexpected change) and long term (“20 year” planned transfer) so that the family is always well prepared for change.

- ensure there is a meaningful role and fulfilling set of activities and sense of engagement for retiring family leaders

Successful transfers of wealth begin with a strategy which addresses all relevant issues: business ownership, governance and management, succession in business leadership (which may include non-family members), wealth structuring and management, the system of family governance and leadership, the ecosystem of advisers, mentors and decision-makers that can make or break a family, and, most importantly, a thoughtful approach to the individuals, relationships and family culture that make up the “soft side” of family strategy.

Some of the proven elements of a successful approach to define and implement that strategy include the creation of a GT Steering Committee made up of members of the current and rising generation, development of a plan to address family business, family wealth, family governance, a foundation or philanthropic set of activities. In pulling this together, an agreed Statement of Family Purpose and Values, described in the last edition of *Wealth*, can be a valuable combination of objective and guidelines for behaviour along the journey.

In addition, each family member of the rising generation should have an individual plan which addresses roles, rights and responsibilities in the new order, but also highlights the need for skills development and personal development to prepare for those roles.

One critical element in the most successful GT programmes is not always received favourably by members of the Next Generation, but can be very helpful in achieving the long-term goals and objectives that a family sets for itself: a system of performance enhancement that includes setting objectives – both short and long term – for the accomplishment and development of each family member, and a system of honest and objective performance reviews against those objectives.

Perhaps the most important element in the successful formula is finding a meaningful role for retiring family members who are stepping down to roles as mentors, supporters and often, contin-

uing shareholders and forever, parents, grandparents, uncles and aunts, brothers and sisters. Failing to think through the options for continuing engagement – in the family governance, philanthropy, family business – or even a continued hands-on role in a sub-set of family businesses, can create a more positive engagement, and avoid the risk of disruptive re-entry by bored “retired” members of the family and its businesses.

It is always a mistake to think of the transfer of wealth and business positions as the job of the senior generation. Each member of the next generation should take responsibility for his or her contribution to the programme, and to personal development plans as well.

It can be exceptionally challenging for children who have grown up in a privileged environment to have acquired the street smarts that are so necessary for success in the rough and tumble of the commercial world. Often well educated, younger generations will benefit from a realistic assessment of their capabilities and the nature of the challenges they will face.

Often, outside experts can help to assess and develop programmes, often lasting many years, of individual career progression and personal development.

Working together to stay together is another laudable objective that lies at the heart of the success of many multi-generational business families. This phrase has two meanings: On the one hand it means a shared focus of activity in owning and managing a business can help to create a shared platform for family unity and engagement. It also can mean that it takes hard work to stay together as a family through the inevitable ups and downs of life.

Hard work indeed, but effort well invested if you want to preserve and enhance the future of both your family and your fortune for many generations to come. **W**

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