Moneyed family

AN INTEGRATED APPROACH TO SUCCESSFUL WEALTH TRANSFER

The numberone reason family wealth management fails is the family itself – poor communication, lack of trust, divergent visions, and a failure to prepare succeeding generations tears down the resources the family has worked so hard to build. Traditional wealth management, which concerns itself with investment management, tax planning, estate planning, and cash flow management, cannot fix this. Instead, a fresh approach that integrates strategic and tactical wealth management to align the family’s assets with the family members could go a long way in ensuring family wealth stays in the family.

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THE ADAGE ‘SHIRTSLEEVES TO SHIRT-SLEEVES IN THREE GENERATIONS’ BECAME A WELL-KNOWN PROPHETRY BECAUSE IT IS UNFORTUNATELY TRUE. And it appears to be true in virtually every culture. In Ireland, the saying is, ‘Clogs to dogs in three generations’. In Italy, it is, ‘Stabile to starto stabile’ in the same time frame. In Japan, The first generation runs the house, the Chinese proverb is ‘From paddy to paddy to stars to stable’ in the same time frame. In Ireland, the saying is, ‘Clogs to dogs in three generations’. In Italy, it is, ‘Stabile to starto stabile’ in the same time frame. In Japan, The first generation runs the house, the Chinese proverb is ‘From paddy to paddy to stars to stable’ in the same time frame.

What it often means is that the first generation works hard to build the wealth and a better life for the family. The second generation, which has known both the

frugality required to make a fortune and the advantages wealth confers, understands the value of hard work and maintains or even expands the family’s assets. The third generation, which has never struggled, is less likely to see the relationship between work and reward and more likely to spend down the money – and the cycle must begin again.

Successful wealth transition involves careful financial planning that encompasses such factors as tax and investment strategies, asset management, information management and reporting, and the consequences of growth as successive generations marry and have children, to name a few. None of these factors exists in a vacuum. Everything from climate change to regional wars to a technological crash may affect investments and financial planning, and a failure to appreciate risks and rewards can have significant deleterious effects on the maintenance of a family’s wealth.

The challenge most wealthy families face is that they do not take an integrated approach to family wealth management – an approach that incorporates both a strategic outlook and exceptional tactical performance. Families who concentrate too heavily on traditional wealth management generally do not do well in preparing for long-term wealth impact.

Conversely, other families may miss wealth-creating opportunities because they put too much emphasis on family harmony and do not question actions and decisions made by other family members who seem to be in charge. Or they simply rely on content with today’s gains and thinking little about the future. By giving scant attention to interpersonal dynamics and communication, these families may set themselves up for failure when the economy takes a turn or a family member makes a unilateral and spectacularly bad investment decision.

Furthermore, the traditional providers of wealth management services such as banks, brokerage firms, registred investment advisors, insurance agents, accountants, and attorneys focus primarily on traditional wealth and estate planning and neglect to address the strategic issues that account for 95 per cent of the reasons families fail to sustain wealth. What is needed for multigenerational wealth management and sustainability is the amalgamation of both strategic and tactical planning and execution. The families who have been the most successful in running the family business also put the same kind of effort into managing the business of family. Along with the traditional wealth management responsibilities, these families continue the non-financial elements that affect the growth (or loss) of the family enterprises. These issues include:

- Family history and values: Who are we as a family? What lessons can we learn from the wealth creators or the concept of wealth creation? How did our forebears build the family fortune? What do they have to teach this generation? Do we have the same values they did, or have we developed a different moral compass?
- Family vision and mission planning: What do we stand for as a family? Do we have a shared vision or purpose for the wealth and the family into the future? What do we want our family legacy to be? Do we agree? If not, how do we resolve differences of opinion about what we want our legacy to look like?
- Communication planning: How do we currently communicate with one another? Does that method work or should we develop some new modes of communication? How can we continue to improve communication between and across the generations? Would we benefit from a more consistent and formal communication process?
- Family governance: Should we manage our wealth as a unit or should we divide and manage it independently? Who’s currently handling the wealth on behalf of the family? That is, who has the greatest say in how it is developed and used? Is this the most effective way to carry out the family’s mission and values? What are the rights and responsibilities of each family member? Are they clearly understood and communicated? How do we ensure individual family member accountability while allowing for expedited decision making?
- Leadership development and assistance: How do we prepare the next generation of leaders? What skills do we need, and how do we identify who has them? What education and training should the family provide for those who will fulfil major responsibilities in the future?
- Role clarification: What roles currently are being played by various family members? Are there gaps we need to fill? How do we determine which family members are best suited for which roles? Do any roles conflict with one another? Are these roles that served us well in the past but that now can be pruned as we look to the future?
- Family education: How do we develop an ongoing educational programme designed to train family members to successfully manage and steward wealth on behalf of themselves and the family? Should education be carried out by the family, by other advisors, or by a combination of experts both inside and outside the family?
- Risk: How do we balance risk and reward? How can we avoid the risks that might undermine the family mission? How do we deal with risk if it threatens our values? How does the family prioritize risks and manage risks based on the likelihood of specific types of occurrences and the level of impact they would have on the family?

Using a process that is clear, well-communicated, and well-orchestrated increases a family’s opportunity for long-term cooperation and unity, generational understanding and happiness, and financial prosperity.