



# MODULE 08

## *Next Gen Education and Generational Transition*

DOWNLOAD INTRODUCTORY VIDEO << [HERE](#) >>

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*“Education of the next generation is the highest return investment you can make for yourself and your family.”*

Many of our most important life skills are not explicitly taught in academic settings and may not receive the attention they deserve in the modern family setting as well. Major issues related to the understanding and pursuit of true family wealth – including preserving and enhancing financial wealth – are all too often shunted aside in an ever more uncertain, complex and demanding world operating 24 hours per day, seven days a week.

In a study conducted with parents and children to measure the role schools play in teaching children about family money and finance, parents said 90% of financial education should be delivered in school with only 10% of the learning coming from the home setting. Conversely, children said only 10% was taught in school and 90% was learned at home where there was no structured or organized approach to learning in the area.

In addition to family finance and investment, two other areas of great importance to legacy families which are almost always left out in a standard school curriculum involve - addressing a broader set of matters related to a family's current goals and future aspirations - understanding how businesses, in particular family businesses, work:

- |                                       |   |
|---------------------------------------|---|
| 1. How to save                        | 7. How to exercise the entrepreneurial spirit |
| 2. How to get paid what you are worth | 8. How to handle credit                       |
| 3. How to spend wisely                | 9. How to use money to change the world       |
| 4. How to talk about money            | 10. How to be a citizen of the world          |
| 5. How to live within a budget        | 11. How to be grateful...                     |
| 6. How to invest                      |   |

Godfrey, J. (2013). *Raising Financially Fit Kids* (Revised edizione.). New York: Ten Speed Pr.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

Engagement requires a broad and consistent effort, including:

- Sharing stories and reinforcing family history and identity
- Drafting a clear Statement of Family Purpose, vision and values (why, what, how)
- Shared sense of the benefits of legacy: how staying together can create something greater – and a better life - than what one can do on one's own
- Addressing family culture and establishing effective communications
- Clarifying and responding to questions on family and financial roles, and individual opportunities, rights and responsibilities as they evolve over time
- Understanding of risks to family and required responses
- Leadership: style and substance
- Assessing and supporting individual trust and commitment
- Living by example
- Ensuring participation in programmes of Generational Transition and evolving governance (review of Constitution, Council, Company and Advisory Boards, etc)
- Mutual responsibility for programmes of generational education and individual development
- Fun and celebration

The former area of broader family matters can include addressing family history and culture, purpose, vision, values, organization, leadership, relationships, philanthropy, and other matters of shared family interest. Programs of family learning about business can cover topics related to business importance, ownership, operation, and strategy.

As most family leaders are either too busy or ill-equipped to structure and lead a full program of family knowledge in legacy matters, we are offering here a three-part Introductory Course to fill knowledge gaps regarding:

1. Family Legacy and Leadership
2. Family Finances and Wealth Management
3. Family Business Ownership and Strategy



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

Within each part of the course, there are opportunities to learn through video lessons, related questions and answers, associated reading materials, and specific exercises leading to the production of important high-level documents which can easily be completed by participants of all ages, capabilities and experience levels.

Experts note that families can encourage responsible ownership and engagement across generations through five specific methods:

- Build an education program that teaches family virtues, values and history
- Require every owner to complete a basic financial education
- Require every owner to read and understand their legal duties conferred by the legal documents supporting each owner
- Teach owners how to make competent decisions in tandem with their financial advisors
- Actively participate in all family meetings related to their ownership role

Such an investment generates the energy needed to sustain the family enterprise. Asking future generations to be engaged owners and to control their own destinies fosters a new generation of entrepreneurs who have taken the time to reflect on what they want from life and how they can contribute most to family wealth and legacy in some meaningful way.

Sustaining family wealth and legacy through the generations requires a partnership between responsible owners and superior advisors. While much has been invested in perfecting the financial advice that is essential for this partnership, relatively little emphasis has been placed on developing responsible owners who share a broader vision for their future and the future of their capital.

Thoughtful, intentional preparation for the responsibility of ownership is the most critical factor for success in sustaining family legacy for generations.



## Educating the Next Generation

Continuing education for members of a wealthy family is about learning how to be a responsible owner of wealth. It involves learning about the family's history and values and its philosophy of wealth and goals for the future, as well as learning how to work with a team of siblings or cousins to make decisions and achieve collective goals. It also requires an understanding of the structures and instruments used to grow and protect the financial assets of the family.

Education that begins at an early age and continues through adulthood (in age-appropriate ways) is a worthy investment in the future of the family.

### EDUCATING WEALTH OWNERS

*"A family seeking to preserve its wealth must understand the need for all of its members to be thoroughly educated on how to be owners of the family enterprise, so that its family members will be competent to make risk taking decisions as owners together."*

James Hughes

It is no surprise to learn that research shows that educated family members make better owners, and that continuing education is essential for growing the human, financial and philanthropic capital of families around the world.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

#### WHAT THE NEXT GENERATION NEEDS TO KNOW

- Integrated legacy strategy
- History and current challenges
- Purpose, vision and values
- Governance and leadership
- Wealth structuring and estate planning
- Wealth management
- Business ownership and strategy
- Philanthropy and social engagement
- Family office and ecosystem
- Conflict and dispute resolution
- Relationships and individual issues
- NextGen and family education
- Risk management
- Generational transitions and succession

An informal study<sup>1</sup> of some of the most experienced U.S. Family Offices yielded the following insights about the process of preparing the next generation to be successful owners:

- Owners who take responsibility for, and ownership of, their own education are better able to sustain wealth.
- The creation of an education strategy for the responsibilities of ownership must be a partnership between owners (as leaders who define vision and boundaries) and their advisors. Education is the responsibility of all family stakeholders, not just the principals.
- Education aimed at developing human assets must be engaging, even entertaining, to sustain the interest of multiple generations and to build bonds that reinforce shared visions, values and learning.
- Owners' educational journeys may occur at varying developmental stages and in a variety of ways. Respect for individual readiness, learning styles and unique needs will help ensure success for family learning and legacy.

*(Continued over page)*

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<sup>1</sup> Family Office Exchange, 2007



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

- Education for the responsibilities of ownership is a process, not an event. Meeting once or twice a year with owners without a sustained, coherent vision with learning goals and clear outcomes is not sufficient. Educational opportunities need to be consciously threaded throughout the activities of the family and the Family Office as a persistent, cumulative learning process.

One overarching theme resounds: educating the next generation is a family responsibility that cannot be delegated. Only a strong partnership between the family and its advisors yields successful results.

#### With Wealth Comes Responsibility

Professors Craig Aronoff and John Ward, co-founders of the Family Firm Institute, believe the first step in preparing for wealth and enterprise ownership is a commitment to become a good owner.

“When you prepare yourself to be a good owner, you are creating the opportunity for yourself to contribute. You are finding the way to earn what you own by being a good steward of it – preserving and building it for the next generation, for employees and for the community.”

Craig E Aronoff and John L Ward <sup>2</sup>

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<sup>2</sup> Family Business Ownership: How to Be an Effective Shareholder by Craig E. Aronoff and John L. Ward. Marietta, GA: Family Enterprise Publishers, 2001.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

This is particularly challenging. Contributing personal time and energy to the family enterprise can seem like a sacrifice for family members whose lives are surrounded by opportunities for immediate gratification. The hectic pace of modern life and travel only makes it more difficult. Asking family members to invest in an uncertain, long-term vision of the future is a difficult thing to ask; it takes a far-sighted, patient owner to embrace this challenge.

Family leaders identify some of the common challenges they face when trying to engage the next generation in the education process:

- Lack of motivation (“I have a trust fund, why should I bother to work?”)
- Lack of time (“We live too far from the kids’ school and are too busy.”)
- A sense of entitlement (“This is our due, not something we have to re-earn, sustain or nurture.”)
- Fear of the loss of wealth (“I don’t know what I’d do if I lost my inheritance; it’s too awful to contemplate.”)
- Guilt (“I’m too embarrassed to act in my own self-interest.”)
- Subsidy of adult children (“I love my kids and don’t want them to face financial stress.”)
- Desire to maintain and perpetuate a lifestyle (“This is my money; the next generation is on their own.”)
- Reluctance to own financial responsibilities (“I really don’t want to think about the management of our money; that’s the Family Office’s job anyway.”)
- We don’t have any financial issues; the Family Office has it all under control (“This is a problem that will go away if I just let someone else worry about it.”)
- The impact of new relationships/new spouses (“I see the world differently now that I’m married; I am rethinking my loyalties and responsibilities.”)

No matter how well intentioned a family may be about educating for ownership, good intentions can be neutralized by apathy, anxiety, denial, fear or simply competing activities, visions and goals.





## Educated to Be a Great Owner

Learning to be a great owner is not easy, and it's not something one can go to school to learn. Nor is the education – technical and emotional – of the next generation something that can be delegated to third parties or outside institutions. Under the cover of an expensive infrastructure, surrogates in the form of nannies, tutors, maids, and even boarding schools may be used to replace the far more valuable and appreciated assets of parental guidance and attention.

Unfortunately, there is no surrogate for the leaders of the nuclear family in the education of their children, an investment that can yield generations of high returns.

“Strong parenting is the best estate planning tool.”

Craig E Aronoff and John L Ward <sup>3</sup>

Once parents, and often grandparents who have seen the benefits of an appropriate education for their own children, decide to get involved in educating the next generation, it becomes increasingly clear what they need to do. Merely getting started may be their biggest hurdle.

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<sup>3</sup> Ellen Perry, Wealthbridge Partners, quoted from FOX Fall Forum, 2009.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

Experts note that families can encourage responsible ownership through five specific methods:

- Build an education program that teaches family virtues, values and history
- Require every owner to complete a basic financial education
- Require every owner to read and understand their legal duties conferred by the legal documents supporting each owner
- Teach owners how to make competent decisions in tandem with their financial advisors
- Actively participate in all family meetings related to their ownership role

### Generational Transitions

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.

One challenge every successful legacy family must face many times is the transfer to a new generation of the ownership of financial wealth and business assets, along with leadership of the family and its philanthropic and other shared endeavors. This is not easy, and many families fall apart or fail to achieve their full objectives at these critical points in establishing an enduring legacy.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

#### Passing wealth and wisdom successfully from one generation to the next

Managing significant change in a family enterprise, in particular leadership or generational change, will test a family's leadership, values and potential to create an enduring legacy.

Topics to be addressed include:

1. Understanding Family Evolution and Identifying Your Own Family's Biggest Transitional Challenges
2. Strengthening the Foundations of the Family
3. Setting Family Goals and Individual Roles for the Transition
4. Assessing and Addressing NextGen Emotional Readiness for the Responsibilities of Wealth
5. Organising the Future Family: Determining Long Term Roles and Balancing Participation
6. Leadership Succession: Stepping Up and Stepping Back
7. Design and Implementation of the Holistic 'GT' Program

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 very few people who succeed in developing a family fortune.

Even fewer manage to retain that wealth over generations, with far too 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...



#### PHASING: CONTENT AND PROCESS

Thoughtful families often consider the approach to address the future and set long-term objectives, roles, responsibilities and support required in three phases:

- |            |  |
|------------|--|
| Phase I:   | When the patriarch is still actively engaged in the business and providing family leadership   |
| Phase II:  | When the patriarch is available as a mentor and guide (and possibly still providing family leadership) but not fully engaged in the business ('stepping back') |
| Phase III: | When the patriarch is no longer engaged in either family or family business leadership   |

.... With clarity needed on the patriarch's role, and the roles of each member of the rising generation, at each stage.

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.



#### The issues

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% 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 longstanding 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?'

The 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.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

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
- 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 eco-system of advisors, 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.

Both process and content are important.

Some of the proven elements of a successful approach to define and implement that transitional strategy include the creation of a GT Steering Committee made up of members of the current and rising generations plus selected external advisors; that group would be responsible for the development of a plan to address family strategy and transitions. In pulling this together, drafting an agreed Statement of Family Purpose and Values, can be a good first step to begin the process.



## GENERATIONAL TRANSITIONS

What needs to be done:

1. Description of assets to be transferred (business, financial, philanthropic, non-financial assets – e.g. property, traditions, community roles, etc)
2. Principles and approach (incl. asset structures) to future asset stewardship and requirements for success (hard and soft skills), **consistent with family purpose, values, governance and culture**
3. Assessment of Next Generation skills and capabilities individually and as a team: both 'hard' and 'soft' factors considered, with gap analysis (3 vs 2)
4. Three phased plan for generational transition:
  - planning and assessment (plans for each element of the legacy framework)
  - preparation and phasing into the future roles (making adjustments as required)
  - operation and mentoring only
  - annual performance and development milestones in place throughout (with checkpoints and an annual review of each family member)

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, Vision and Values, can be a valuable combination of objective and guidelines for behavior 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.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

#### GENERATIONAL TRANSITION: PREPARATION

1. Create a Steering Committee and set responsibilities for Generational Transition, with an important role for all Next Gen member.
2. Identify and address existing gaps in business, family and philanthropic governance, policies and organization – and a plan to address them.
3. List priority areas of knowledge and experience needed for the future for each element of the legacy framework.
4. Assess individual and team knowledge and capability to learn vs needs.
5. Define needed educational programmes for individuals and the group – involving current generation of leaders as well (compare 3 vs 4)
6. Allocate resources for each component – internal and external – and identify time and cost implications for both 'hard' (accounting, finance, strategy, IT, governance, etc) and 'soft' (teamwork, communication, leadership, trust-building, etc) skills.
7. Set out objectives, milestones and timetable for the "GT" plan.

One critical element in the most successful GT programs is not always received favorably 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.





## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | INTRODUCTION AND OVERVIEW | cont'd

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, continuing 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.

#### **An Exercise of Great Value**

While the time, effort and challenge of a successful GT programme are not inconsiderable, the benefits can be extraordinary. In particular for a family of very substantial wealth, with or without a large operating business, the benefits of preserving family wealth, stature and harmony are enormous.



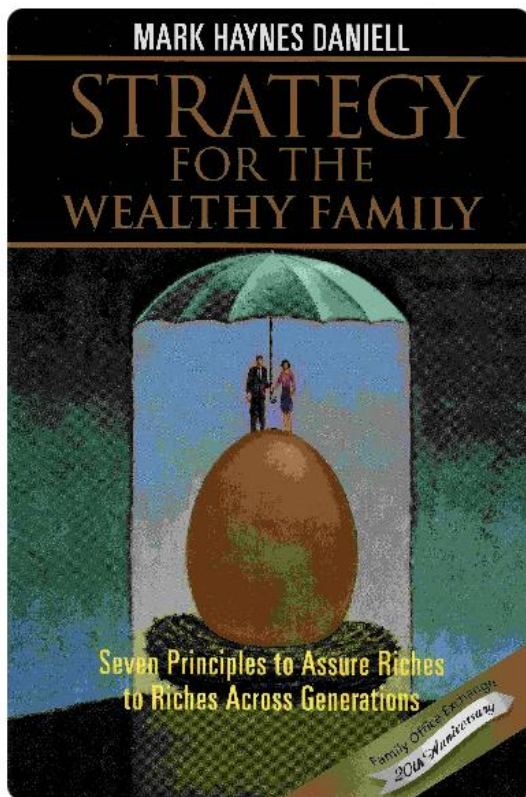
## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY QUESTIONS |

1	What do all members of the Next Generation need to know to be responsible owners of wealth, contributing members of the family and good members of society?
2	What are the priority gaps in their knowledge and experience today and how can they best be filled? How can members ensure they are technically, practically, socially and emotionally ready to fulfil their roles?
3	What is the right balance of 'hard' and 'soft' knowledge and experience to be pursued, ensuring that the right values and culture are instilled within all members of the family and shared across generations?
4	Generational Transitions: What are the phases and priority actions by phase required for a successful transition of wealth, leadership and responsibility to a new generation of the family?
5	How can individual succession plans best be developed and their effective implementation be assured?
6	What lessons and approaches have 'successfully wealthy' families applied in the past to ensure successful 'passing of the torch from one generation to another'? How will this change in the future?
7	How can the Next Generation best step up with appropriate gratitude, and the current generation of family leaders (and shareholders) step down with grace?



## Strategy for the Wealthy Family



Introduction: Mastering the Challenge of Family Wealth

Pages 1 to 10

Principle 1: A Framework for Family Strategy Pages 11 to 12

Chapters 1 to 5

Pages 13 to 52

Examples 1a and 1b



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | GLS1201

### 01. Introduction: Generational Transition and Succession |

DOWNLOAD INTRODUCTORY VIDEO << [HERE](#) >>

#### Lesson Summaries

Below you will find summaries for select videos within this module. Note that not every video in the module has a summary document.



#### Key Takeaways

"If we want things to stay the same, things will have to change"

The family is at the center of the legacy strategy framework

Starting by defining the family and establishing how its past will carry into the future

How can the family's past be used to its advantage rather than against it?

Legacy families never stand still

To a certain extent, family evolution is predictable

In the first generation, families tend to have a patriarch and matriarch, or a couple, who have made substantial wealth that is essentially managed as one unit

Members of the second generation have a common background, but a different set of challenges from their parents, G2 is best managed by creating a "sibling partnership"

The third generation is likely to be diverse and managed more loosely as a "cousins consortium"

Evaluating the challenges, opportunities and risks generation by generation to develop a coherent strategy is a key to success

Remember to consider in each area, that there are both 'hard' (technical) and 'soft' (culture and people) issues to take into consideration



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | GLS1201

### 01. Introduction: Generational Transition and Succession | cont'd

#### Guidance

Legacy families do not stand still. Most families will undergo change and evolve over time. This change is relatively predictable and can therefore be managed. The challenges faced by members of each generation are shaped by a natural family evolution.

First generation success tends to begin with an individual or a small group managing the business and wealth directly.

In the second generation, different facets of the family business tend to be managed separately, often by siblings. Second generation members are usually fearful of making mistakes and not living up to their parents' success or expectations. They must face challenges associated with simplifying asset structures, finding suitable roles within the company, being active owners, sharing ownership and control with siblings, inheriting or living with financial complexity, simplifying operational structures and personalizing their predecessor's business to be successful for them.

Third generation members can see a vast influx of outside influence into a family business. While siblings tend to run second generation businesses, third generation companies are often run by consortiums of cousins. Third generations can be challenged by living up to two generations of family legacy, collaborating over long distances, developing long-term visions, finding systems of Family Unity, balancing nuclear and legacy families, finding meaning in privilege, and developing multi-generational thinking.

When preparing for generational transitions, evaluating all opportunities, risks and challenges and synthesizing a coherent strategy is a key to success.



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | ILS1005

### 02. Legacy Strategy for the Future: Multi-Generational and Multi-Dimensional Framework |

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#### Key Takeaways

“Hope is not a strategy”

Family legacy strategy involves thinking forward across multiple generations

Family legacy strategy is long term and comprehensive

Poor strategy or a lack of strategy is the main reason that families and family businesses fail

Relevant ‘hard’ and ‘soft’ issues to consider

#### Introduction

Creating a family legacy requires thinking across multiple generations and is very different from strategies for business and investments. The family and family business failure can be avoided through strategic planning. Creating a legacy strategy is a three-phase process: a diagnostic phase, a design phase and an implementation phase.

The business, family wealth management and legacy strategies outlined in the following modules will provide wealthy families with the tools and skills necessary to create a legacy strategy and preserve their family wealth.



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | ILS1005

### 02. Legacy Strategy for the Future: Multi-Generational and Multi-Dimensional Framework | cont'd

#### Guidance

Strategy for wealthy families is very different from strategies for business:

- Families are multi-generational
- They are complex and multi-dimensional
- Leadership of a family business requires diverse skill sets, such as understanding hard and soft elements of the business

Effective legacy strategy:

- Sets a long-term vision which is aspirational
- Takes a three-generation view
- Uses a holistic and integrated approach
- Adapts to changing circumstances
- Is creative
- Utilizes a unique approach based on family culture
- Has a clear vision

Legacy Strategy Challenges:

- Understanding the family (history, current state, goals, size, definition, family culture)
- Shaping the future with family purpose, vision, values and guiding principles, as well as family governance and leadership
- Managing wealth and assets creatively and effectively, deploying ownership strategies, governance and management
- Undertaking strategic transactions outside of the pure family business to build future businesses



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | ILS1005

### 02. Legacy Strategy for the Future: Multi-Generational and Multi-Dimensional Framework | cont'd

Strategy is essential to maintain a stable future. We all hope for a prosperous future, but hope is not a strategy; planning and actions are required. Family legacy strategies operate on a much longer time scale and are more complex than other business strategies. Long term family wealth strategies require cooperation from and mastery of many disciplines across the family.

#### Reasons family businesses fail:

- Poor succession planning
- Lack of good advisers
- Family conflict
- Different visions between generations
- Governance challenges
- Exclusion of family members outside the business
- Unprepared next generation leaders
- Not using the family as an advantage in business
- Not respecting the fundamental principles of strategic planning for business

An effective family legacy strategy can prevent many of these issues. Successful family businesses create legacy strategies that address both the family business as a whole and the individual needs of family members.





## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | ILS1005

### 02. Legacy Strategy for the Future: Multi-Generational and Multi-Dimensional Framework | cont'd

Younger generations can inherit the momentum and best practices of older generations. Curating family, personal and cultural relationships across generations can be dubbed “soft work” but can be considered more difficult than the technical aspects of running a business. Balance hard and soft skills across disciplines for an effective family business strategy.

#### Strategic Family Wealth Planning elements include:

- Family purpose, vision, and values
- Guiding principles
- Governance and Leadership
- Asset structuring
- Wealth management
- Business strategies
- Execution of strategic transactions
- Philanthropy
- The family ecosystem
- Conflict avoidance
- Family culture and relationships
- Individual family members
- Education and engagement of family members
- Managing integrated risk
- Managing generational transition, leadership successions, and major initiatives

Legacy strategy is a unique challenge but is an opportunity to shape the future. It allows the achieving of goals and fulfilling the purpose of family enterprise



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | NXG1002

### 03. Next Gen Education and Engagement |

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#### Key Takeaways

Owners who take responsibility for their own education are better able to sustain wealth

Educational journeys occur at varying developmental stages and in a variety of ways. Respect for individual readiness, learning styles and unique needs will help ensure success for legacy family learning

When developing an educational strategy for the next generation, incorporate important lessons such as rights, responsibilities, family vision and values and the risks and limitations of wealth

Relevant 'hard' and 'soft' issues to consider

#### Introduction

Wealthy families should understand the importance of educating and engaging the next generation (NextGen) to preserve wealth and carry on the family legacy across future generations. Educating and engaging the NextGen presents unique challenges, especially as the generation gap widens and new risks emerge.

Central to the theme of NextGen education is the subject of responsible ownership and family dynamics (both individual and as a unit). Learning about the responsibilities of family business ownership is an ongoing process, not a series of singular events. Meeting owners once or twice per year without a regular schedule, coherent vision, learning goals or clear outcomes is not sufficient.



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | NXG1002

### 03. Next Gen Education and Engagement | cont'd

Educational opportunities need to be consciously threaded throughout family activities and the family office as a persistent, cumulative learning process.

Creating an educational strategy must be a partnership between owners (current leaders who define vision and values), the NextGen leaders, NextGen members and advisors.

Education is the responsibility of all family stakeholders, not just the principles.

#### Guidance

Families around the world are discovering that engaging the next generation is challenging. Because of widespread, accessible technology and inexpensive travel, future generations are more likely to be globally dispersed.

Creating deep familial bonds in a fragmented world of experimentation and cultures that do not honor family tradition is difficult.

**What can be done to bring people together?**



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | E-LESSON | NXG1002

### 03. Next Gen Education and Engagement | cont'd

To engage the next generation, promote participation and entrench family values, these steps can help:

#### Reinforce a sense of identity and affiliation

- History and culture
- Shared activities
- Education (together)
- Digital community
- Communications
- Roles in governance
- Generational transition programs

#### Enhance individual benefit and life/career opportunities

- Family support (mentoring)
- Assessment and reviews
- Education and development
- Internships and externships
- Career advice and placement
- FO services and resources
- Economic and brand benefits
- Philanthropy

#### Demonstrate attractive leadership

- Style
- Substance (addressing evolving generational issues)
- Eligibility and exposure
- Inclusiveness
- Trust (number one issue)
- Humor and fun in the family

#### Avoid alienation and reduce conflict

- Understand NextGen perspectives and dynamics
- Identify priority risks
- Address individual, relationship and key cultural issues
- Manage soft issues
- Do not pander, but avoid issues where possible

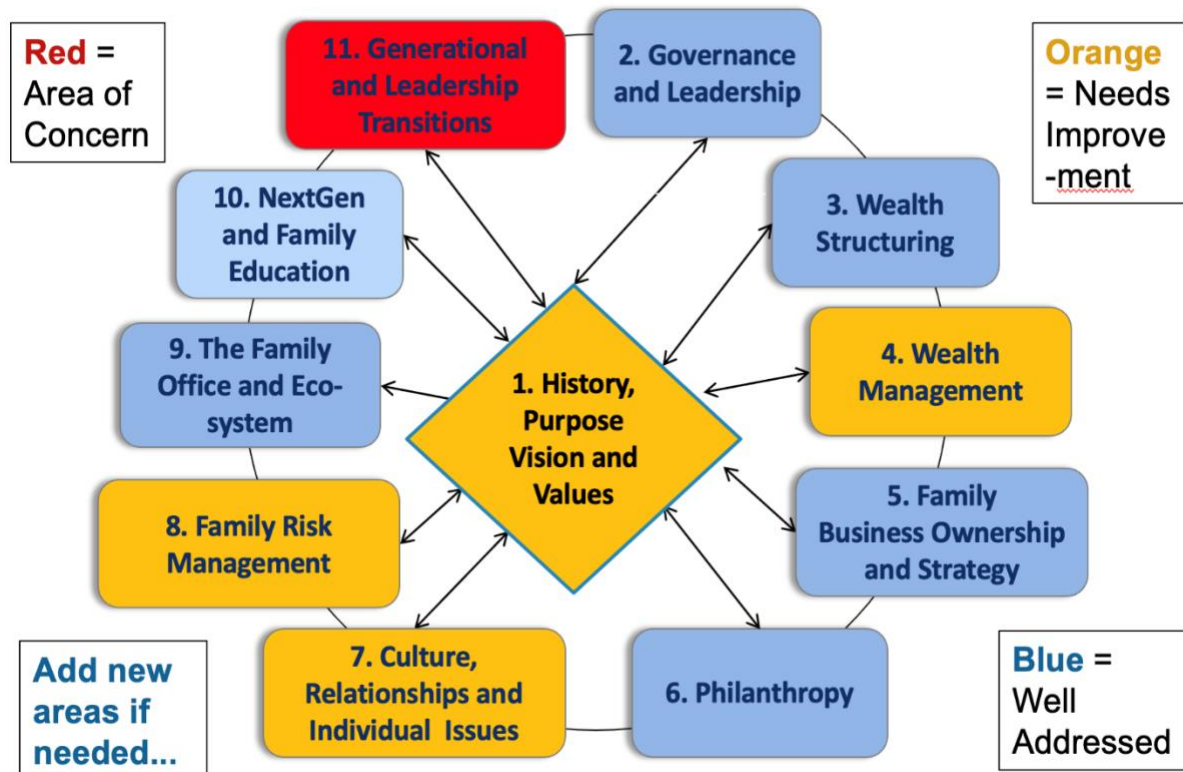
Following these four guidelines will encourage younger generations to embrace the family culture and continue its legacy.



## FAMILY WEALTH AND LEGACY PLANNING

MODULE 08 | KEY DOCUMENTS | NEXT GEN EDUCATIONAL PRIORITIES |

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### KEY DOCUMENT I: NEXTGEN EDUCATIONAL PRIORITIES

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## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY DOCUMENTS | GENERATIONAL TRANSFER AND PHASING |

- Create a Steering Committee and set responsibilities for Generational Transition, with an important role for all Next Gen member
- Identify and address existing gaps in business, family and philanthropic governance, policies and organization – and a plan to address them
- List priority areas of knowledge and experience needed for the future for each element of the legacy framework
- Assess individual and team knowledge and capability to learn vs needs
- Define needed educational program for individuals and the group – involving current generation of leaders as well (compare 3 vs 4)
- Allocate resources for each component – internal and external – and Identify time and cost implications for both ‘hard’ (accounting, finance, strategy, IT, governance, etc.) and ‘soft’ (teamwork, communication, leadership, trust-building, etc.) skills
- Set out objectives, milestones and timetable for the “GT” plan



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY DOCUMENTS | GENERATIONAL TRANSFER AND PHASING | cont'd

#### KEY DOCUMENT II: GENERATIONAL TRANSFER PLANS AND PHASING

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PHASE	REQUIRED ACTIONS
<b>Phase I</b> Current Leadership Generation still fully active and engaged on all matters within the family enterprise: the family and family governance, business, wealth management, philanthropy and others	<ul style="list-style-type: none"><li>• Clarify Family Purpose, Vision, Values and Philosophy of Wealth</li><li>• Put in place an Integrated Legacy Strategy addressing all elements - and the consolidated whole - of priority matters within the full family enterprise</li><li>• Draft a family Constitution to guide multiple generations of the family</li><li>• Put in place an educational and development program for all members of the NextGen, with special attention to those who wish to join the family business or other aspects of the enterprise</li><li>• Identify and address all 'soft' issues and ensure a family culture is being fostered consistent with the long-term aspirations and goals of the family</li><li>• Prepare a forward plan to specify roles, rights and responsibilities relevant to the Next Gen and expected leadership and ownership transitions over time</li></ul>



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY DOCUMENTS | GENERATIONAL TRANSFER AND PHASING | cont'd

PHASE	REQUIRED ACTIONS
<b>Phase II</b> Current Leadership Generation still present, but not active and engaged full time, and only on selected matters; NextGen taking on ownership and leadership roles in all aspects of the family enterprise	<ul style="list-style-type: none"> <li>• Clarify roles, rights and responsibilities and timing of any changes, for both the NextGen as they step up, and the retiring generation as they step down</li> <li>• List reserved rights to older members of the family and specify when these will be transferred to the NextGen (e.g., voting rights on shareholdings in a family business)</li> <li>• Put in place clear principles of selection: eligibility (incl. both family and non-family members), educational, development and capability requirements and required performance for continuity in key roles open to the NextGen</li> <li>• Specify succession plan timing and approach to key roles</li> <li>• Clarify transfer of ownership in key assets and wealth/asset structures for the future</li> </ul>
<b>Phase III</b> Current Leadership Generation no longer present or active in any matters; NextGen in all leadership and decision-making roles and owners of wealth, business shares and other assets	<ul style="list-style-type: none"> <li>• Refresh Family Constitution and Integrated Legacy Strategy</li> <li>• Determine how best to work together in all aspects of the family enterprise</li> <li>• Review risk and opportunity priorities facing the new leadership generation, including preparing their own NextGen</li> <li>• Put in place all aspects as in Phase I</li> </ul>





## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY DOCUMENTS | EXECUTIVE SUMMARY OF FAMILY WEALTH AND LEGACY PLAN |

#### KEY DOCUMENT III: EXECUTIVE SUMMARY OF FAMILY WEALTH AND LEGACY PLAN

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### EXECUTIVE SUMMARY OF FAMILY WEALTH AND LEGACY PLAN

#### CONTEXT

In the midst of an unprecedented global health and economic crisis, and the uncertainties it brings, the Cuscaden Family faces a number of unprecedented family and business challenges.

As a result, both our immediate tactics and long-term strategies need to be reconsidered, and changes made, to manage the risks, and take advantage of the opportunities, in front of us.

#### A TESTING TIME

Family leaders, capabilities and values are tested, and great families are forged in times of crisis and adversity. The strategies that we develop, and the actions we take, will have a profound influence on the future we create, and the family legacies we leave.

If we respond well, we can navigate successfully through these turbulent times and also take advantage of the opportunities to reinforce and build on our family foundations, strengthening our family and emerging even stronger to face the inevitable crises of the future.

Our approach to the present and future challenges will need to be conscious of the fact that some 'best practices' from the past will need to be supplemented by a set of new 'next practices' which are better adapted to allow your family's wealth and legacy to survive and prosper in the future.

Rising to the short- and long-term challenges of this phase will also be as much about addressing the 'soft' people issues such as leadership, unity and motivation as well as the 'hard' issues such as wealth structuring, investment, business strategy and philanthropic impact.



## **ELEMENTS OF STRATEGY**

In order to be as effective as possible, we will need to address a number of interdependent elements of strategy on a coordinated basis. These areas are as follows, with a short summary of our priority actions in each area below:

### **1. Purpose, Vision and Values**

The new Cuscaden Family Statement of Purpose and Values can provide a relevant guide to our actions:

- I. To create a business and manage our wealth in a responsible and sustainable manner in order to secure the health, education and financial welfare of members of the Cuscaden family indefinitely, and also to use our wealth to improve the quality of life for those in need of support.
- II. To make a valuable contribution in selected areas of philanthropy, sustainable investment and environmentally focused “clean” technology.
- III. To be a united and harmonious family - across multiple generations and at all times - whose members, traditions and values are worthy of respect.

### **Revising our Vision**

Due to the constraints of starting new businesses in the current climate, coupled with increased geopolitical risks, we are deferring, and possibly cancelling, our emerging markets JV initiatives India and China. This will revise our vision which included the development of a scale set of activities, and an increasing international presence, by 2025.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY DOCUMENTS | EXECUTIVE SUMMARY OF FAMILY WEALTH AND LEGACY PLAN | cont'd

#### Living our Values

In addition to aligning with this aspirational statement, the principles we demonstrate at this time in our decisions and actions must be consistent with the four primary Cuscaden family values - Integrity, Unity, Responsibility and Generosity.

In the current environment we are putting these values into action by reinforcing unity through increased communication, and open sessions with all G2s and G3s, generosity by increasing our philanthropic spending by 50% to fund local food banks for unemployed individuals and their families' responsibility by retaining as many employees in our businesses as we can, and integrity by taking tough decisions to honor our commitments – or work together to find new agreed win/win solutions - even if it is not always easy to do.

#### 2. Leadership and Governance

We have taken a major step forward in formalizing our governance and broadening the number of leadership roles in the family. By drafting and ratifying our first Family Constitution, we have created an approach which is balanced, fair and transparent, and operates in line with the achievement of our broader purpose and our four principal values.

In creating roles which are a balance of both meritocratic positions (ensuring the best person is in place for the job) and rotating between branches and generations (ensuring balance and stability within the family), the approach taken will provide a structured approach which, we hope, can operate successfully for many years no matter who is taking up the available positions.

Given the number of times that leadership appears as either a weakness or as an opportunity for improvement in interviews during the early stages of the legacy planning exercise, addressing this issue is a high priority task.

It is essential now to redefine the roles and responsibilities of the leadership and advisory team, even in advance of an FD/future CEO coming on board. There is now a need to put the right people into the right jobs with the right objectives, leadership, supervision and compensation.



### **3. Wealth Structuring and Protection**

In addition to continuing the longer-term initiatives over the past three years with regard to the diversification of trust jurisdictions and increased use of our own Private Trust Companies, we need to add a review of the possible value of a long term HEW Trust for the future members of the family whose parents have lost a substantial portion of their wealth.

The level of distributions of trust income and capital to family and philanthropic beneficiaries also needs to be examined in an environment with diminished dividends and low interest rates.

A review of the trust system and its operations, resulting in the drafting and agreement of a new Letter of Wishes, more frequent meetings with trustee and advisors on a group basis with younger family members, the outline of a system of PTCs and diversification of trust jurisdictions and trustee arrangements.

In addition, as a result of increased long term tax risk in our home country, a review of domicile issues, on and offshore living options or Family Members and roles and responsibilities related thereto should be addressed.

We are also strengthening the role of our offshore functions through the establishment of a high-quality Investment Committee, which also constitutes the board of the Swiss entity, to review proposals and make formal investment recommendations to the trustee for decision-making.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY DOCUMENTS | EXECUTIVE SUMMARY OF FAMILY WEALTH AND LEGACY PLAN | cont'd

#### 4. Wealth Management

A Wealth Review initiative undertaken by Charles Cuscaden and the FO team led to a change in portfolio reporting to show total family wealth from different perspectives, both with and without the family businesses, overall asset allocation and concentration risk ratios, individual manager performance, cash on hand and currency exposures

While confirming our lifestyle-legacy approach to investing, the current situation demands a review of the split of assets between the two, the risk profile and expected return in each asset class and industrial sector, and the need to take a more active role in balancing portfolio risk - concentration risk, currency risk, counterparty risk and tail risk - based on the lessons learned over this past year and from the GFC as well.

Investment Policy Statement: The drafting of our first IPS led to a top-down and bottom-up review and rethink of the asset allocation model (emphasizing income generation as well as capital growth), the nature of the investments chosen, the role of the investment manager and possible appointment of a new investment advisor with a broader and more forward looking approach, eradication of some unhelpful patterns (e.g. investing with friends and doubling down on unsuccessful investments) and the institutionalization of a more expert and disciplined approach taken to the selection of managers in our financial 'eco-system' and related tactics and execution in each asset class.

Cost reduction and portfolio efficiency: We have reduced our manager and banking charges by 30% over this past year through a greater amount of attention being invested in redesigning reporting forms and analyzing and renegotiating portfolio costs and returns.

Sustainable and Impact Investing: We will be investigating the possibilities to reallocate a visible portion of our liquid wealth to this sector, headed by a joint team of G2 and G3 Family Members.



## **FAMILY WEALTH AND LEGACY PLANNING**

**MODULE 08 | KEY DOCUMENTS | EXECUTIVE SUMMARY OF FAMILY WEALTH AND  
LEGACY PLAN | cont'd**

### **5. Family Business Ownership and Strategy**

The economic impact of the COVID-19 pandemic led to a thorough review of the way we were doing business: increased importance of cash collection, reduction in HQ and operating cost reduction, and restructuring financial arrangements with the banks were all part of the new focus in the markets. Decisions were taken to defer some growth initiatives in the emerging markets and limit credit lines, even to established clients.

CSR: We did not step back from our CSR policies but have refocused on those areas where there is greater tangible commercial benefit, e.g., 'green energy' and organic products in our agriculture businesses.

Innovation and Entrepreneurship: Within the family and our businesses we have restructured our 'I&E' program to focus on innovative ways to protect and improve operations in existing operations, including the application of new technologies. The Family Entrepreneurial Fund remains available to younger Family Members who see business creation opportunities despite (or maybe because of) the challenges of the crisis.

### **6. Philanthropy and Social Engagement**

We have increased our financial commitments to philanthropic activities, and added a new branch of activity, providing ICU equipment to local hospitals and working with partners to feed unemployed individuals and their families in our home city.

Immediate action priorities: To review the long-term consequences and family needs in our home city as a result of the pandemic and lead an effort to assemble a group of leading families, companies and public bodies to identify priority needs, and then design and roll out both short- and long-term action plans to fill these needs.



## **7. Family Culture, Relationships and Individual Issues:**

Family relations have been generally harmonious for many years, but the bonds between younger generation members appears to be declining as people move abroad and follow different life paths in different places. A cross-generational social program was put in place and an improved approach to communications was set up by Anna Cuscaden under the direction of the Family Council.

## **8. Family Risk and Crisis Management**

As a result of the crisis, we are moving into an era of enormous tax revenue shortfalls and a likely targeting of res non-doms and rich list UHNWIs by the new Inland Revenue Special Unit. In this environment, nothing but 100% solutions regarding offshore structures, reporting lines, processes and policy-setting are likely to hold up in the coming years.

Action consistent with this observation could include bolstering of resource in Geneva, protection of the integrity of the trustee's role, simplification where possible, and a strict separation of on and offshore employees, reporting lines, advisors, meetings, archives, activities and structures.

## **9. Family Office and Ecosystem**

Following a full review and wholesale change of the family services area, culminating in a comprehensive security review and overhaul of premise security, staffing and reference procedures, selection and management of security guards, hiring of a professional head of family services (Rose Haywood) and significant increase in interaction between family members and the new head of family services.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY DOCUMENTS | EXECUTIVE SUMMARY OF FAMILY WEALTH AND LEGACY PLAN | cont'd

The creation of a Geneva office with seven key functions:

- Supporting function for trust administration
- Supporting the operations of Investment Committee
- Building up a broad network of family offices and co-investment deal sources
- Searching for and evaluating investment managers
- Searching for and evaluating direct equity opportunities
- Coordination of banking relationships
- Optimal management and development of the family property portfolio

It will be a high priority to determine the future shape of the organization, define roles at all levels, fill in gaps in resource levels, reduce costs and address weaknesses in operation and execution.

## 10. Generational Transitions and Leadership Succession

Although not due for more than 5 years, James IV (4 years from now) and Anne (5 years) will be stepping down from all of their leadership roles. Effectively, this means that each major role in the Family Enterprise will need to be filled: Chairman of the Businesses, Chairman of the Foundation, Chairman and Vice Chairman of the Family Council, representative on the national President's Business Board, Trustee of the Church Body of Elders, Chairman of the Family Office Oversight Board and Investment Committee.

Although the process for filling these roles is now established in the Family Constitution, a full-scale effort needs to begin today with the Nominating Committee to identify potential candidates for these roles, assess individual and team capabilities, review different approaches to filling the roles and offer opportunities for future leaders to step into related roles such as director of small businesses, Vice Chairman of the Family Council, etc.





## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 08 | KEY DOCUMENTS | EXECUTIVE SUMMARY OF FAMILY WEALTH AND LEGACY PLAN | cont'd

Progress to increase engagement of all NextGen members in selected meetings and decisions, the initiation of Alex's summer internship at Cuscaden Steel, the design and implementation of a major remedial educational program to address knowledge gaps have been necessary, but not sufficient, progress in preparing the family and selected individuals for their roles in the future.

Addressing other succession issues will include hiring a replacement firm for legal advice (John and Samantha), identifying a successor to the lead trustee, and identifying and beginning the search for a successor to ND as the Geneva FD/future CEO.

**Emotional Readiness:** In both Generational Transition and Leadership Succession considerations, the role of 'Emotional Readiness' needs to be considered along with technical expertise and experience in the job. A Myers-Briggs style analysis and work with a coach and family (non-parent) mentor will be a valuable part of all future preparations.

**Inverting the pyramid at the time of transition:** One proposed approach for the succession of financial leadership into the next generation would be to 'invert the pyramid', meaning that the team of advisors who currently report to James's leadership (at the apex of the pyramid) would themselves become leaders of the process, explaining policies and fielding ideas from family members but retaining ultimate decision-making authority.

The details of this approach have yet to be worked out or accepted by the trustee and relevant family members.



## **FAMILY WEALTH AND LEGACY PLANNING**

### **MODULE 08 | KEY DOCUMENTS | EXECUTIVE SUMMARY OF FAMILY WEALTH AND LEGACY PLAN | cont'd**

#### **11. NextGen and Family Education**

Each Family Member will need a basic education in business and financial matters, along with exposure to family governance and family 'soft' issues in order to play their roles as good owners of wealth and contributing members of the family.

From the age of 25 onward, family members will be strongly encouraged to have completed a participation in some form of formal external training to ensure that these basic skills are in place. No position in any family body will be open to individuals until he or she has completed this training.

A special role will be created in the Family Office, reporting to the Chair of the Family Council, to ensure that programs are available and funding in place for this education to be assured.

#### **12. Oversight and Implementation Planning**

In addition to these individual elements, the Family Council shall establish a Family Strategy and Development Committee, made up of members from all active generations and branches of the family, to oversee progress in each of the areas above.

The Annual Family Implementation Master Plan will be reviewed quarterly by this Committee and progress reported to the Family Council at their regular meetings.



## FAMILY WEALTH AND LEGACY PLANNING

### MODULE 01 | KEY DOCUMENTS |

EDITABLE TEMPLATES AVAILABLE FOR DOWNLOAD BELOW:

TO BE COMPLETED WITH YOUR OWN FAMILY WEALTH AND LEGACY PLANNING  
CONTENT

KEY DOCUMENT I: NEXTGEN EDUCATIONAL PRIORITIES

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