

The International Family Offices Journal

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Family wealth – a new playbook for turbulent times

François de Visscher

We live in a VUCA world – volatile, uncertain, complex and ambiguous. What lessons have been learned during the 2020s to help owning families grow wealth for current and future generations, amidst the turbulence ahead?

The 2020s are forecast to be a highly turbulent decade. They wasted no time in gaining this reputation, ushering in one of the greatest global shocks in generations, Covid-19. The pandemic and its ripple effects – as well as political upheavals, economic shocks and climate disasters – have been a litmus test of enterprising families' ability to financially endure unforeseen disruptions.

During the pandemic, many family enterprises stumbled and lost ground, wiping out years of profitable growth, and reducing their capital strength. Adapting to fast- and ever-changing conditions, surviving setbacks, and seizing opportunities have been major challenges for enterprising families.

Still, some families grew their financial wealth and shored up new opportunities for the future growth of their family enterprise. They were prepared for a disruption, without knowing in what form it would emerge, and they acted swiftly and strategically. What can we learn from them?

Wealth strategies for turbulent times

The Covid-19 pandemic is but one example of the many interconnected forces that are disrupting the world today (eg, environmental, technological, globalisation, socio-politico-economic). They are dramatically changing the economic landscape for business families around the world, and the pace of change is accelerating.

With continued instability ahead, families need a playbook to weather future shocks and position themselves to be strong and flourish. Multigenerational families who play the long game know that setbacks – large and small – are inevitable, and get ready for them. But the turbulence in our current era will occur at a velocity that even the most experienced families are unpractised at withstanding.

The new playbook for family wealth takes a total family wealth perspective, and offers a three-part formula for managing wealth in turbulent times. Putting these strategies in place will be a key determinant of families' ability to regenerate their wealth and success for decades to come.

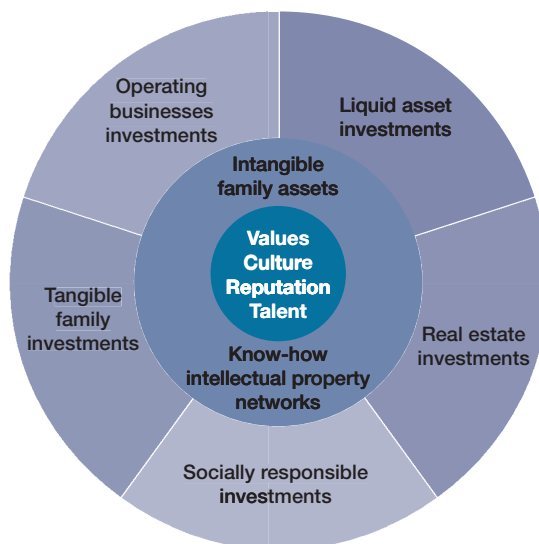
Figure 1: Global forces of change and disruption



A total family wealth perspective

A critical first step is for owners to view their wealth from the right vantage point. Two key changes in perspective will be required: gaining altitude to comprehensively view – as a portfolio – all of your family's wealth; and understanding how wealth travels through your family enterprise.

Figure 2: Asset categories in a family's total wealth portfolio



*Wealth is not static, so understanding and managing
the top and bottom lines of the equation for your family's
total wealth is essential.*

Your total family wealth portfolio

Family wealth can refer to many different kinds of value, viewed and managed as a portfolio of assets that, collectively, make up your total family wealth. A family's *values, culture, talent and reputation* are at the heart of its wealth portfolio, anchoring and driving the family's pursuit of wealth for current and future generations. The family's total wealth encompasses its entire portfolio of assets, which includes *intangible assets* (eg, know-how) as well as *economic wealth*.

Your family's economic wealth includes all of your jointly-owned financial assets, which can be divided into five broad categories:

- *Operating businesses and investments*, such as legacy businesses, other operating companies, direct investing and intellectual property;
- *Liquid assets and investments*, including cash, investment portfolio, funds and hedge funds, and alternatives (eg, crypto);
- *Real estate investments*, including commercial, retail and residential real estate, as well as investments in land;
- *Socially responsible investments*, such as impact investing, social ventures and strategic philanthropy; and
- *Tangible family assets*, including homes, aircraft and other lifestyle investments, heirlooms, art and collectibles.

Traditionally, families have focused on growing and transferring their operating business(es) to the next generation, while accumulating financial assets on the side, from profits generated by the business. Often, the family takes a strong, visible leadership role on the business side while taking a passive role on the financial side. Investment management is frequently delegated to non-family wealth managers, sometimes with little oversight and rarely with coordination between the two sides of the house.

In today's world, owners must take a more active, comprehensive and integrated approach to their wealth. The focus should be on managing not just a particular business or asset, independently from the others, but on long-term total wealth. This requires that families transition from 'business managers' (with an operator mindset) to 'wealth managers' (with an owner mindset).

Wealth inflows and outflows

Owners need to understand how wealth travels through and impacts the growth of their entire portfolio of assets.

Wealth is not static, so understanding and managing the top and bottom lines of the equation for your family's total wealth is essential. On the top line, you need to know *how assets are growing* across all categories. Return on capital, reinvestment, smart bets, diversification and market value appreciation all are factors.

Understanding (and managing) the family's wealth also requires attention to *how assets are being depleted* by activities such as dividends, family lifestyle consumption and philanthropy as well as bad bets, cost of debt, ownership buyouts, taxes, inflation and estate planning for the entire portfolio of assets.

With this high altitude, portfolio perspective and a solid understanding of how wealth travels through the family enterprise, owners are ready to put in place the strategies needed to grow multigenerational wealth in turbulent times.

The SGA formula for managing wealth

Stability and *growth* have long been the hallmarks of multigenerational family wealth. "Don't rock the boat" and "Stay hungry" are messages often heard in enterprising families. In today's turbulent times, stability and growth remain vital to success, and *agility* is the critical added ingredient.

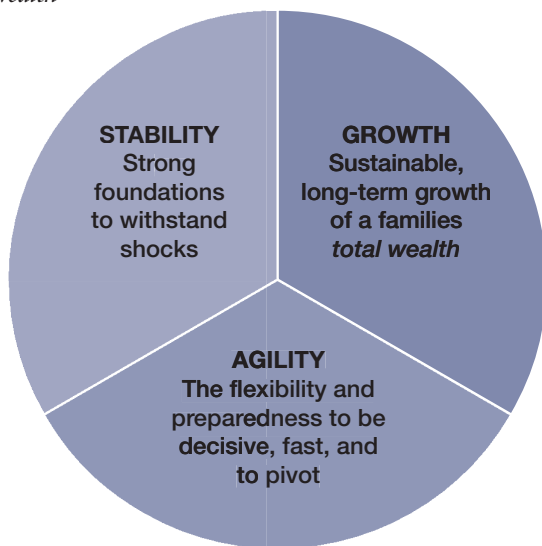
Families that want to successfully navigate changing times and build wealth through generations use this three-part formula for managing their total wealth: Stability, Growth and Agility (SGA).

Stability: the foundation

The ability to withstand shocks is the bedrock of a strong wealth strategy. A *strong financial foundation* is perhaps the most obvious requirement, and includes the availability of liquidity (cash) to honour commitments and a conservative balance sheet (low debt). Family businesses are celebrated for their strong balance sheets, generally an indication of their superior performance in any sector.

Ownership stability is also fundamental. *United and engaged owners* with a long-term commitment to the future of the family and the family enterprise are essential. And – linking the two – is a *well-oiled*

Figure 3: The SGA formula for managing total family wealth



governance system with a focus on strategic (versus operational) issues, efficient decision-making processes, and effective mechanisms for coordinating family and owner interests with business and investment interests.

Stability in turbulent times: a case study

One of my clients is a fourth-generation-owning family with a large holding company based in the United States. Its legacy business is a multi-billion-dollar industrial manufacturing company that serves customers in multiple markets and sectors, and has become a technological leader in its industry. The family enterprise's other assets include real estate holdings and direct investments in businesses unrelated to the family company.

Effective governance and owner commitment have helped the family and its business to effect smooth generational and ownership transitions and maintain a long-term perspective and patient capital, even during tough times. Four major branches of the family are represented on its owners council, which oversees the family holding company.

Going into the Covid-19 crisis in 2020, financial stability was a priority for the family owners. To assess all of the family's business and financial assets and the portfolio's ability to withstand Covid pressures, the council conducted an exercise that categorised each asset as green (generating cash, keep), red (not generating cash, restructure or divest), or yellow (not sure, wait).

On the cash side, they made sure that liquidity and family wealth weren't being depleted by excessive consumption. The financial stability of the company was paramount – one of the family's values – so there was support from owners when the council reduced dividends and revamped some owner liquidity

programmes to make resources more accessible to the business in the short-term.

Council members invested considerable time to stabilise the ownership base of the company through the crisis. They respected the owners as important stakeholders, giving them regular and abundant information, a voice in decisions, and a forum to express their concerns. They reminded family members of their shared values, vision and grit in the face of other crises, and that they were all in this for the long-term and willing to make short-term sacrifices to survive and thrive.

An important lesson in this story is that you don't build stability spontaneously when you need it. The family had the foundation in place for financial stability, owner commitment and effective governance so that, when faced with a destabilising shock, they were prepared and could move quickly.

Growth: the engine

Profitable, sustainable growth is the engine that allows your total family wealth to be transmitted to future generations. Developing a long-term growth strategy will involve studying megatrends in the sector(s) where you are operating, and doing deep-dive opportunity and risk assessments across all asset categories in your wealth portfolio.

Long-term growth requires the careful balancing of asset growth, liquidity and ownership control over time, combined with sustainable consumption and careful management of risk-reward tradeoffs. Spreading risk is an important aspect of wealth growth, and can be achieved through external partnerships, mergers and acquisitions, minority stakes in some investments and diversification.

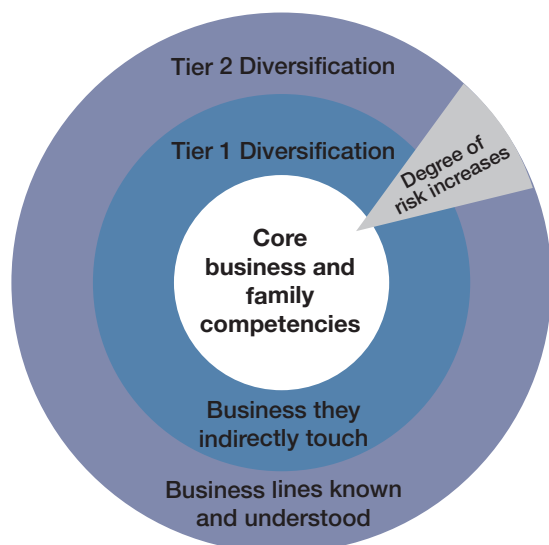
Diversification as a growth strategy

Diversification is a good way to spread risk and gain access to capital, know-how and experience. It is not without risk itself, however, so *compatible diversification* is the safest route. That approach involves diversifying along the family's core competencies (ie, knowledge, capabilities and resources that distinguish you from others). The further into the unknown you go (ie, Tier 2 diversification), the greater the risk.

One of my family clients – a third generation Asian apparel manufacturer – began exploring new opportunities as growth slowed in their legacy business. Over the years, they had developed several core competencies in sectors that were adjacent to their textile business, such as warehousing and distribution (eg, drop shipping) and e-commerce.

The owners considered venturing into Tier 2 by diversifying into areas they knew less well, but they ultimately decided against it. Instead, they leveraged their core competencies to invest in companies that

Figure 4: Tiers of diversification and risk



distributed non-apparel products via e-commerce (eg, medical products). On the warehousing and distribution side, they invested in a company that owned several Amazon distribution centres. It was a winning strategy.

Growing a multigenerational portfolio

A total wealth portfolio with elements that address the interests and risk profiles of each generation (eg, impact investing for younger members, lower risk for senior members) supports both asset diversification and differing family needs. Family members can partner across generations to gradually architect a “generation-adjusted portfolio” that engages and motivates each generation, in pursuit of their long-term family mission and goals.

Agility: the adaptor

With the amount of rapid change occurring in the world today, no portfolio, organisation or ownership group will succeed without agility – the ability to *pivot* and *reinvent*. Constantly scanning the horizon for signals of change and being prepared to quickly adapt to new realities are critical to survive and thrive in an ever-shifting landscape.

For a family wealth portfolio, agility is the ability of owners and managers to move financial and human resources quickly to address threats and seize opportunities. Its key aspects are speed, decisiveness, preparedness, flexibility and the ability to pivot to new models or strategies and, as necessary, detach from a particular investment, business or way of doing things.

An owning family must exercise agility on multiple dimensions. *Capital flexibility* (eg, different types and

structures of capital for new investments), *ownership flexibility* (eg, different ownership structures, some minority stakes, openness to new partners), and *decision-making flexibility* (eg, fast and effective governance) are all essential to build agile portfolios and organisations.

The family holding company described in the stability case study above also offers a good example of agility in turbulent times. During the Covid-19 pandemic, it balanced short-term stability needs with efforts to reduce leverage and free up resources, which enabled it to quickly seize emerging opportunities in both its legacy industrial company and outside investments.

The change imperative

Agility requires an openness to new ideas and a willingness to let go of old methods and forge a new path. Reinvention and transformation are hallmarks of success for today’s enterprising families, which can be a challenge for owners who define stewardship as clinging to the status quo rather than looking for opportunities to build value according to their values in each generation.

Not everything has to change – and not all at once – but families need to recognise that what has worked for growing their family’s business and wealth in the past is not likely to keep working for much longer, and moving slowly (or not at all) will come at a cost. Failure to keep up means being left behind.

The future is here. Are you ready?

The future is here and it is turbulent. According to results from a global survey conducted by the Cambridge Institute for Family Enterprise,¹ enterprising families expect continued turbulence as the decade progresses. They recognise that their families and their enterprises will need to change, to be able to proactively adapt to turbulent times, but they don’t feel change-ready.

Our wealth playbook’s total wealth perspective and SGA formula for managing a family’s total wealth provide frameworks and tools for assessing your current situation and identifying improvement opportunities. Skilfully applied, they can help you navigate through and beyond the 2020s.

Do you have the mindset, skills, knowledge and relationships needed to navigate the new era and grow your family’s total wealth for current and future generations?

Figures 1 and 2 courtesy of Cambridge Family Enterprise Group, 2022 and figures 3 and 4 de Visscher Advisors, 2021.

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1 Cambridge Institute for Family Enterprise is the research and education division of Cambridge Family Enterprise Group.

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