

Family Wealth Strategies for Turbulent Times: The SGA Formula for Success

François de Visscher
Senior Advisor and Associate Partner, CFEG



Not every family or family enterprise will survive, let alone thrive, during turbulent times. Successful owning-families adopt a three-pronged formula for building family wealth in this changing era: Stability, Growth and Agility (SGA).

The disturbances and ripple effects of today's turbulent era—whether political upheavals, economic shocks, technological leaps, climate disasters, the Covid-19 pandemic—are a litmus test for family business resilience and sustainability. These times challenge a family's ability to weather disruptions, adapt to ever-changing conditions, survive setbacks, seize new opportunities, grow their wealth, and survive as an ownership group into the future.

In the downturn of the Covid-19 pandemic, many families lost ground, wiping out years of profitable growth and reducing their capital strength. Other families, however, have rallied to build their financial wealth and shore up new opportunities for family enterprise growth and multigenerational prosperity.

What lessons can be learned from families that are successfully regenerating family wealth in these turbulent times? The answer is a three-pronged strategy – Stability, Growth and Agility (SGA) – grounded in a *total family wealth* perspective.

This article has been adapted from *Family Wealth: A New Playbook for Turbulent Times*, written by François de Visscher and published in the December 2022 edition of The International Family Offices Journal.

This article can be found on our website at [CFEG.com](https://www.cfeg.com) ➔

Total Family Wealth: A New Perspective

A *total family wealth* perspective is a mindset and a methodology that CFEG developed to help owners take a more active, comprehensive, and integrated approach to building their collective multigenerational wealth. It requires that owners gain altitude to strategize for all forms of their wealth as a complete portfolio of assets.

Families rarely take such a high-altitude or portfolio view of everything that they own. In today's turbulent times, we no longer consider this optional. Families need to understand how wealth is created or destroyed in every corner of their family enterprise, and how the different parts of their assets impact each other.

Family wealth can refer to many different kinds of assets, both tangible and intangible. It is anchored in the family's values, mission, vision, culture, reputation, and talent. A family's total wealth portfolio encompasses all of its jointly-owned assets, typically organized into five broad categories of economic wealth:

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

With this high-altitude perspective of the family's total portfolio of assets, and a clear accounting of the costs of each, owners are ready to put in place the strategies needed to grow total family wealth in turbulent times and through the next generation.

Stability, Growth and Agility: The Success Formula

Stability and growth have long been hallmarks of a multigenerational family wealth strategy. They can be heard in family directives such as, "Steward the legacy" and "Don't rock the boat" (*Stability*). Or "Focus on growth and reinvestment, not dividends" and "This investment will compound our wealth at a higher rate" (*Growth*).

In today's turbulent times, stability and growth are necessary, but not sufficient for survival and long-term success; Agility is the critical added ingredient.

Families wanting to successfully navigate changing times and build multigenerational wealth use what we refer to as the SGA Formula for managing total family wealth: Stability, Growth, and Agility.

The SGA Formula for Managing Total Family Wealth in Turbulent Times



François de Visscher, 2020

Stability: The Foundation

The ability to withstand shocks is the bedrock of a strong wealth-building strategy in turbulent times, and requires more than just financial stability. Ownership and governance stability also are essential.

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

United and engaged owners with a long-term commitment to the future of the family and the family enterprise also are crucial. And, linking the two, is *well-oiled governance* with a focus on strategic (not operational) issues, efficient decision-making, and effective mechanisms for coordinating family and owner interests with business and investment interests.

Growth: The Engine

Profitable, sustainable growth is the engine that allows family wealth to build, be invested in the future, and be available to current and future generations.

Long-term growth requires the careful balancing of asset growth, ownership control, and liquidity over time. Combine this with *sustainable consumption* and careful management of *risk-reward tradeoffs*.

Risk must be carefully watched during turbulent times. Spreading risk is an important aspect of wealth growth, and can be achieved in multiple ways, such as through external partnerships, mergers and acquisitions, minority stakes in some investments, or diversification. Diversifying around the family's core competencies is a relatively low-risk way to gain access to capital, markets, and experience, and to increase returns. The family's collective know-how and individual talents can be brought to bear, to grow the new assets.

Family engagement is an important and often overlooked dimension to asset growth. Family members – and especially next generations – need to be encouraged to connect with and contribute to the family portfolio. A long-term growth horizon needs a rising generation that wants to continue wealth-building efforts.

Agility: The Adaptor

No portfolio, organization, or ownership group will succeed in today's fast-paced world without agility—the ability to quickly and purposefully adapt to new realities.

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

An owning-family must exercise agility in multiple dimensions. *Capital flexibility* (e.g., different types and structures of capital for new investments), *ownership flexibility* (e.g., different ownership structures and equity stakes, new partnerships), and *decision-making flexibility* (e.g., owner unity, strategic direction, fast and effective governance) all are essential to build agile portfolios and organizations.

Are You Prepared for Turbulent Times?

Do your family and family enterprise have the knowledge and skills needed to grow your family's total wealth for current and future generations? Are you willing to adopt the new mindsets and practices required for turbulent times?

The future is here and it is turbulent. According to results from a global survey conducted by the Cambridge Institute for Family Enterprise¹, enterprising families expect continued turbulence as the decade of the 2020s progresses. They also recognize the need to change their families and their enterprises to proactively adapt to turbulent times, but they don't feel ready to make the necessary changes.

Change can be a challenge for owners who cling to the status quo rather than look 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 recognize that what has worked for growing their family's business and wealth in the past may be ill-suited to the new era. Failure to keep up means being left behind and can mean losing meaningful value.

The SGA Formula and strategies for building total family wealth provide useful frameworks and tools for assessing your current situation, identifying improvement opportunities, and taking action to future-proof your family wealth portfolio. Skillfully applied, they can help you navigate through turbulent times, and ensure the multigenerational success of your family wealth.

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

REAL-WORLD EXAMPLE

Protecting and Building Family Wealth During and Beyond the Covid-19 Crisis

One fourth-generation family with a large holding company based in North America offers a good example of how **SGA strategies**, with ongoing **owner commitment**, can combine powerfully for resilience during a crisis and the long-term sustainability.

Entering the Covid-19 Crisis

The family's legacy business is a multi-billion-dollar industrial manufacturing company that serves customers in multiple markets and sectors. It has become a technological leader in its industry. The family's other assets include real estate holdings and direct investments in businesses unrelated to the family company.

Four branches of the family are represented on its Owners Council, which oversees the family holding company and family wealth portfolio. The family had the ingredients in place for financial, ownership, and governance stability so that, when faced with a destabilizing shock, they had a strong foundation for moving quickly and decisively.

SGA Strategies for the Crisis

Financial **stability** was an immediate priority for family owners. The Owners Council decided to assess all of the family's business and financial assets, and the portfolio's ability to withstand pandemic pressures. They conducted an exercise that categorized each asset as green (generating cash, keep), red (not generating cash, restructure or divest), or yellow (not sure, wait).

The Owners Council conducted a similar exercise for debts, striving to do all they could to leverage their balance sheet, with owner support. On the cash side, they ensured that liquidity and family wealth weren't being depleted by excessive consumption. Dividends were reduced, and some owner liquidity programs were revamped to make resources more accessible to the business in the short-term.

Despite the urgency of financial stability, **growth** and **agility** also were on the Owners Council's agenda. Owners balanced short-term stability needs with efforts to reduce leverage and free up resources needed to quickly seize emerging opportunities in both its legacy company and outside investments.

Taking The Long View

While skillfully addressing near-term challenges, the Owners Council developed and began implementing a five-year strategic plan designed to move their total wealth portfolio toward higher value creation and greater sustainability. They also made a concerted effort to sustain **owner commitment**.

Owners were given regular and abundant information, a voice in decisions, and a forum to express their questions and concerns. The Owners Council reminded family members of their shared values, vision, and grit in the face of other crises over four generations, and that they were all in this for the long term.

The family and its wealth were future-ready.

About the Author



François de Visscher

Senior Advisor and Associate Partner, CFEG

fdevisscher@CFEG.com

A native of Belgium, François de Visscher has advised business-owning families around the world for over 30 years. He is a trusted advisor to family ownership groups, family offices, and family companies on a wide range of financial areas that span all evolutionary stages of the life of a family and its assets. Mr. de Visscher assists families in developing, analyzing, and implementing financial solutions for the liquidity needs of the owners, the capital needs of the business, and the diversification needs of the portfolio—all while designing governance structures to help build wealth across generations. He is a 4th generation member of his family business.

About Cambridge Family Enterprise Group

Cambridge Family Enterprise Group (CFEG) is a global advisory, education, and research organization that serves family enterprises with growth aspirations—enabling them to flourish across generations. As a go-to trusted partner for the world's enterprising families, CFEG offers a wide range of services to navigate changing times, build pathways for continued growth, and achieve lasting success. Its pioneering thought leadership, strategies, and programs are used by families, family businesses, and family offices worldwide. Since its founding in 1989 by Professor John Davis, CFEG has advised and educated thousands of families from more than 70 countries.