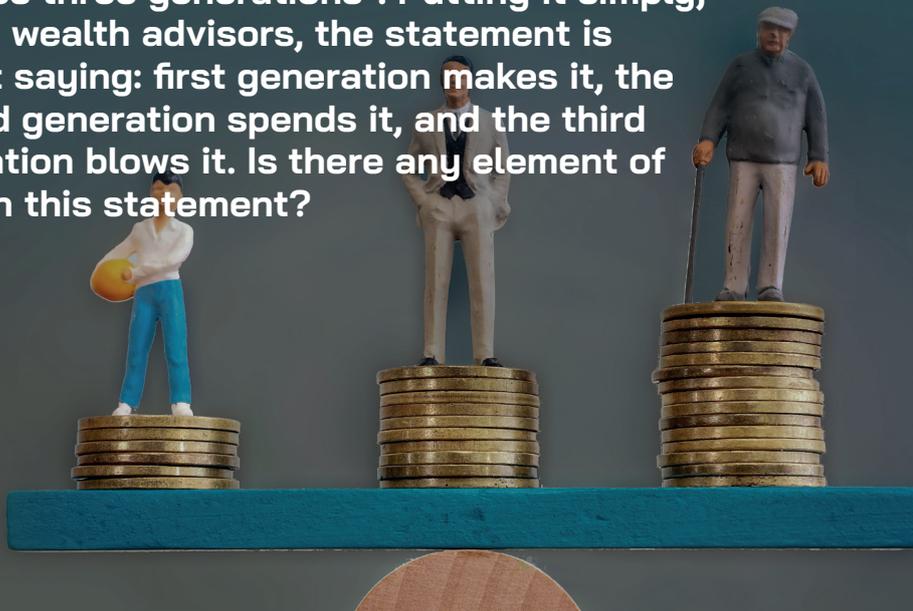


Challenges of Keeping Wealth Within a Family Over Generations

There's a famous proverbial saying "Three Generations from Shirtsleeves to Shirtsleeves" which is often attributed to Andrew Carnegie, the Scottish-born American industrialist and philanthropist (1835-1919) and founder of Carnegie Mellon University. In the Chinese culture, this is the equivalent of saying "Fu bu guo san dai," (in Chinese characters, it is written as "富不过三代") or "Wealth never survives three generations". Putting it simply, among wealth advisors, the statement is almost saying: first generation makes it, the second generation spends it, and the third generation blows it. Is there any element of truth in this statement?



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It may well be the case - according to reports of statistics drawn up some time ago by among others, Family Business Institute, only approximately 30 percent of family businesses survive beyond the founder's generation. From there, the odds of survival only worsen - i.e., 12 percent make it to the third generation, and a paltry 3 percent persevere into the fourth.

Hence, the shirtsleeves curse refers to a very real risk of family wealth declining across generations and hearing it often triggers fear among family leaders as it not only dawns upon them that fortunes dissipate over generations, but also that the cause of failure potentially lies with their heirs, emphasizing the fact that if one does nothing to safeguard his wealth, it may just move away from the creators of the wealth!

Can there be a breakthrough of this generational curse, so that families can continue to preserve the wealth their forefathers create and leave behind a legacy for them to build on for future generations? I think the answer is yes, things need not have to be that way. There are numerous things that families can do to avoid the fate envisaged by the proverb.

The starting position would be to understand the forces that work against family business continuity so that steps can be taken to overcome the impediments. At the same time, it is good to look around how successful families have lived through the times and try to adopt their best practices in an effort to emulate the success of those families into yours by embracing such practices. Here's some best practices (not an exhaustive list) that successful families engage in that make them different:

1. Have in place a Succession Plan

Start with a succession or business transition plan - this should be done as early as possible, and with inputs from others, do not labour under the impression that as the controlling Patriarch/CEO, you have to see to succession alone. Keep in view that succession is everybody's business. Others in the family or business has a stake in it - family members, shareholders, board of directors, key



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non-family executives and so on. You should share this responsibility with them, as appropriate, to benefit from their knowledge, wisdom and perspectives, and if they are family members, their dreams and desires. A well-planned succession or continuity plan will have their buy-in and be more diligently followed through if it has the inputs of those who may succeed as future leaders.

Lay the groundwork for transferring of responsibility, control and authority to the next generation and engage them sooner than later, as one can never predict with certainty when is the right time, which can be exacerbated by natural catastrophe (e.g., who would have anticipated the Covid-19 pandemic that created havoc around the world?); succession is a lifelong process of planning and management.

If need be, families should also embrace the concept of professional management to augment the vacuum in management team if there are no family members or none is ready to assume management positions, and these should be distinguished from ownership roles.

2. Define Family values and Mission Statement

State with clarity the family's values and mission statement as these would have an influence on the

family's shared vision, business strategy, investment and governance. What does this all mean to an objective bystander?

For example, if a family wishes to establish a global company, then, perhaps, the acquisition of a global brand to support its vision of global market leadership would be the value driver to inspire the company to align its vision, strategy, investment and governance to support the acquisition.

The controlling Patriarch should document family values close to his heart and anecdotes of success stories with clear messages for sharing those values and lessons learnt with future generations. The purpose of this is to capture the essence of what transpired in the own words of the Patriarch to eliminate the risk that his personal history and values is re-written by future generations.

3. Training/development and Mentoring of upcoming generation to the family business

If it is a Patriarch's wish or desire to pass the baton to his children, he should begin early to show them the ropes of the business by presenting to them a balanced view of the joys and sorrows of entrepreneurship and the rewards of running your own business and what could go wrong; talk about the rewards and equally share the headaches!

Make the children understand that a role in the family business is an option, not an obligation, i.e., a place in the family business is a career opportunity not a moral duty! This is important because when children assume successor positions in their family business as a result of coercion by their parents to fulfil the latter's dreams instead of participating in the family business out of their own volition, they would likely be conflicted and remain unhappy, which is not a good thing for the child nor the business in the end.

Parents today should appreciate that their offsprings are generally more well-educated and are alive to the family's wealth or financial resources to which they are expected to help grow or if not, at least, to preserve it. Thus, to facilitate children entering the family business, parents should talk about the family business and instill in them the family and business values and ethics from young and not just letting them hear about complaints, and from time to time ensure they get the appropriate formal training and development to equip them well to handle the

rigours of the family business when they join. In addition, children should be encouraged to work for 3-5 years outside the family business during their initial work life, preferably in a larger company so that they can bring with them their outside work experience when they join the family business.

4. Have annual Family retreats

Research shows that successful business families tend to organise annual family events or retreats with the objective of giving opportunities for family members to get together in a cohesive environment to harness the spirit of camaraderie in the family business by encouraging family members to share their experience and discuss matters which they ordinarily would not have had chance to talk about in their busy daily lives.

To derive maximum benefit from such meetings, which is aimed at promoting family unity through team building, leadership and shared responsibility to enable them to live up to the family's shared purpose and legacies, the agenda and activities of the annual retreat must be carefully planned with the objective of reaching out to family members to hear them out. In an effort to enhance the value of such meetings, external advisor(s) are often invited as facilitators to lead the family in exercises aimed at enabling family members to speak openly and honestly in a comfortable setting, so that any underlying conflicts between family members may be ironed out at such events and family harmony promoted or preserved.

This is also a good time for family members to renew their commitment to help sustainability of the family business and do their utmost to contribute to it to keep the family legacies and wealth that they are endowed with.

In conclusion, this paper is designed to inspire both existing and upcoming generations of a family how they can overcome the shirtsleeves to shirtsleeves myth in a positive manner to protect and preserve the wealth of their family business so that it can be continued to be passed down from generation to generation! Cargill and Bechtel are examples of how business-first family businesses that place high value on institutions and free enterprise system have proven to be successful large companies that are still family owned beyond the fate envisaged by the proverb as they are into their fourth and fifth generations. ■