Managing the Risks Inherent In Succession Planning

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In her book, *The Soul of Money*, Lynn Twist[1] tells the story about a group of primitive people and their first experience with money. In their enthusiasm to exchange their most valuable assets for a commodity which became depleted after a very short period of time, the other groups had 'lost their land, their homes, their way of life, and the heritage that had been theirs for all time before'.[2] This people were determined not to follow the same path as their neighbors. They realized that this relationship with money would constantly challenge the 'ancient communal principles of their culture'.[3]

As modern society becomes more deeply embedded in the elements of linear time, we find ourselves struggling to keep alive the ancient communal principles of our culture and to protect and nurture the relationships which are most important to us. We find ourselves increasingly ruled by sound bites, the demands of the workplace, and the 'rush' to get in on the best performing markets. We are constantly trying to balance the effects of this linear invention called money against the preservation of our cyclical family.

Efforts at effective succession and transition planning become lost in the busy-ness of life and daily concerns with the business of the family.

The dynamics of the family are the waters through which effective succession and transition have to navigate. They also are the web of interaction through which trust relationships among family members are either built or broken. It is these relationships which determine the success of transitions either in family businesses, family leadership, or the family office.

There are five levels of risk which threaten the family's ability to keep alive the communal principles of the Family Story, the foundation from which any successful transition emanates. Each of these risks can be effectively managed within the five steps of what may be described as the Generational Wealth Management Continuum℠.

1 Relationship Risk℠ measured by the dynamics of the family. (Step 1: the Family System).
2 The robustness of education and the governance structure through which all types of family education flows (Step 2: Family Governance).
3 Behavioural influences – internal threats – and the miscommunication mismatch with advisors (Step 3: Translation to investment piece).
4 Healthcare, personal protection and other external threats (Step 4: Implementation).
5 A different look at traditional risk management and asset protection tools set up through the family office (Step 5: Monitoring and review).

Relationship Risk℠ within the family system

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The Family System holds the greatest risk of any other part of the continuum; it is the point of emanation for the most dangerous types of threats – those which are often hidden and which come from within the family's ranks. The dynamics of the family are the greatest harbingers of threat to the family wealth.

What are the risks inherent in the family system?

Risks in the family system

Family risk factors:

- rank of family on the hierarchy of priorities
- presence or absence of trust-level communication
- level of knowledge of the family's generational maze
- perceived (assigned) roles versus authentic roles
- quality of time spent with family members
- level, amount, and frequency of interaction among family members
- attention when needed from leadership's view rather than the family member's view
- moral support and assistance based on leadership's definition rather than the family member's
- lack of education as dynamic stakeholder owners
- lack of transparency
- financial capital used as a carrot or method of control.

Relationship risk applies to families in dual fashion; it has to do with the relationships among family members and it also has to do with relationships between the family and its advisors.

There are a number of other risks born from relationship risk.

- The risk that each governing generation will follow its own linear path, expecting generations who follow after to do things exactly as the governing generation has done before them
- The effort to 'control' what happens to the material and financial wealth after the governing generation has died
- The use by the governing generation of roles it has *assigned* as a basis for 'protecting' succeeding generations against ruin
- The lack of transparency which denies succeeding generations the education they so desperately need about their authentic roles and the responsibilities and privileges that accompany them
- The setting of goals based on *perceived* rather than authentic roles

Education through family governance

There are many types of education family members need to fulfil their privileges as dynamic stakeholder owners, and thus, able candidates for succession.[4] Family governance is the petri dish within which

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effective leadership is either groomed or allowed to dissipate. Some of the most predominant risks within this petri dish include:

- Viewing the family through the lens of the business
- Handing off the task of creating family governance to the family office
- Enabling conformity through the family office
- Giving business managers the task of also managing family members
- Assigning roles to family entities which are not authentic to them and which go against their original nature
- Misalignment of the hierarchy of governance
- Choosing family office executives, staff, and advisors who do not have sufficient
- commitment to serve the family in flourishing its authentic wealth

The reason for instituting a governance system in the first place is to put into place a mechanism to guide the family along the path it has chosen for itself and to support the family in achieving the flourishing of its authentic wealth. Education in all aspects of dynamic stakeholder ownership is essential to that purpose.

This should be the starting point for successful transition planning for each of the three family entities—the family itself, the family business, and the family office.

Healthcare and personal protection; External threats; Boards and other governing bodies

When family members of whatever age are empowered as they seek to make their own contributions to the family's authentic wealth, they become walking risk management and asset protection mechanisms. Add trust-level communication to the mix and we have risk management and asset protection which is practically impermeable.

These are the foundational elements of succession planning and transition that will bolster the wealth of the family for generations to come. Overlooking this critical foundation in the effort to get 'something' in place contributes mightily to the demise of all forms of the wealth and its costs from multiple aspects cannot be measured.

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1 Twist, L., *The Soul of Money*, (New York, NY: W.W. Norton & Co, 2006), p.116.

2 Ibid.

3 Ibid.

4 The term 'dynamic stakeholder ownership' belongs to James E. Hughes, Jr. and is used with his permission.

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