



## Shirt sleeves to shirtsleeves in 3 generations

### How does a wealthy family avoid the pitfall of losing its wealth within 3 generations?

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Over the past 30 years I have worked with wealthy families in many parts of the world including Latin America, the Caribbean, Europe, the Gulf, the Far East, and of course, Canada. While there are some key differences, there are many more common themes among wealthy families no matter where they are located. In particular, too often family governance is lacking as the family relies primarily on the firm hand of the patriarch to keep all family members on the same page. When there is a family business involved, it complicates the dynamics of the family even more. A usual result is conflict within the family and ultimately a reduction in wealth, to say nothing of the emotional destruction it causes to extended families.

#### Common challenges that arise when there is a lack of family governance systems

- *No common family vision, mission, values or philosophy.* Through the process of creating a Mission Statement for the family or a family business constitution, families are able to define who they are, and what is important to them, as well as understanding their priorities.
- *Increased conflict within the family.* When there are no rules of engagement, minor issues or misunderstandings can arise and cause disharmony. All families, wealthy or not, have disputes from time to time and creating a mechanism to resolve these matters is important. Recalcitrants can drain money from the family business to support personal activities. Sibling rivalry within family businesses often translates into fierce business competition which can drain funds from the Family business and sometimes even lead to siblings setting up competing companies.
- *Negative Tax consequences.* Events such as the passing of wealth or family businesses from one generation to the next can trigger taxable events. In what is already a difficult time, the consequences of an unexpected death in the family can come as a complete shock and lead to major reductions in family net worth.



- *Reluctance of the senior generation to disengage from being the arbiter of all matters.* Where there is a family business involved, the issues are even greater.
- *No clear separation between family wealth and business wealth.* For example, in some countries drawings from the company are used to build personal wealth; this makes it difficult to calculate the real profitability of the business and increases conflict among family members
- *Succession in ownership and management.* On succession to the next generation, the anointed leader might lack business insight and due to the absence of robust family governance mechanisms expects to be put in a position of power even if they are not the best choice for the role.
- *Diversification within the family business/wealth.* Where families have multiple businesses, it is not uncommon to see one business supporting losses in other businesses. This practice disguises the true worth of underlying businesses and can cause discord within the family.
- *Family employment policies and remuneration.* If policies are not carefully discussed and crafted, non-family members of the business can become demoralized and top talent lost.

**So what to do?** Families need to seek out independent advisors who can objectively help the family discuss these sorts of issues. The advisor must be willing to be assertive where necessary and not allow the patriarch or anyone else to dominate. JFK suffered through the Bay of Pigs fiasco because of Group Think where none of his so called advisors had the courage to tell him what he needed to be told. Families need to engage on these key matters to avoid erosion of the family wealth.

**What not to do?** Don't wait until the patriarch/matriarch is no longer on this earth as they have key roles to play in the transfer of inter-generational wealth. Don't allow siblings to be persuaded that since they are siblings and love one another, they will never have issues among themselves.

### About the author

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