

## KNOW HOW BULLETIN

### THE FUTURE IS NOW: PREPARING THE NEXT GENERATION OF LEADERS

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One of the biggest and most obvious challenges facing society is how to cope with all the changes resulting from technological innovation. The increasing threat from cyber-crime, the potential damage caused by social media and the looming danger of serious job losses from robotics/artificial intelligence are all in the headlines. Many well established businesses have become vulnerable to online competitors and some of the best known brands in the high street are struggling to survive.

Equally challenging are shifting attitudes to social, political, economic and environmental issues which affect our values, the way we lead our lives and the way we conduct relationships.

Given the rate of change and the scale of the challenges, what are the implications for the training and development of future leaders of wealthy families and the businesses they own?

In stable times, leadership can equate to stewardship, keeping the show on the road and preserving a consensus around the core culture and values, whilst making only minor changes to adapt to external developments. Leaders who are excellent stewards have often been the unsung heroes, content to build

conservatively on what they inherited, rather than making dramatic and perhaps risky changes to reflect their own personal ambitions.

The best remembered leaders, however, tend to be those who have made a great impact, having the conviction and courage to drive through major changes, often in the teeth of fierce opposition.

Such leaders often come to power in times of crisis, the best known examples being politicians such as Nelson Mandela in South Africa and Churchill and Thatcher in the UK, who all managed to seize the initiative by persuasive communication and enormous conviction, which finally won round doubting colleagues.

## WHAT RELEVANCE DOES THIS HAVE TO FAMILY LEADERSHIP IN 2018?

Although there is no crisis, the rate of change is arguably more rapid than we have experienced for many decades, such that conservatively run businesses can find their viability undermined at very short notice. Not all families have businesses which suddenly become vulnerable to technology, but they can still be impacted by political and economic developments which affect attitudes to wealth and bring the twin threats of higher taxation and falling asset values.

The purpose of this paper is to address how we reconcile the need for entrepreneurial leadership with the need to protect the interests of family stakeholders against unnecessary and excessive risk.

## DEVELOPING A COMMON UNDERSTANDING

One of the best foundations for effective leadership is the consent of those being led, in this context the wider family. In the past, leaders did not always feel the need to consult the wider family, but times have changed and those in leadership roles are accountable to even the smallest beneficiaries.

It is therefore desirable for all family members to be equipped to have meaningful conversations about the family wealth, the key decisions which have to be taken and the role they may have to play. They need some understanding of family objectives, governance, structures and reporting and this helps the family, across generations, to focus on shared beliefs and timeless values that define the legacy.

In the past, this understanding and culture would usually be passed on informally through the upbringing of the children, the example of the parents and the values that are implicit. But in most families, communication is not as good as the older generation assumes it to be and the natural

process can be re-enforced by providing more structured forums to achieve the following:

- recount the history, the motivation and values of the founder, the sacrifices made and the supporting role played by other family members (parents, spouses, aunts and uncles)
- discuss and agree family values and objectives, including the central purpose of the wealth
- regular 'updates' on the progress and activities of family members and associated enterprises
- training in business, investment, structures and governance, including selection of leaders

There may be formal and informal settings, including regular family meetings, structured programmes led by outside advisers, work experience and one to one conversations. Some larger families now also have websites, videos and newsletters to help communicate the history, promote values and keep family members up to date with developments. This promotes responsible ownership and boosts engagement, reducing the likelihood of disputes arising from widely differing expectations.

For education in family business and wealth management, there are now numerous programmes available where young people can learn alongside others, getting the added benefit of sharing views and experiences with people from other families facing similar challenges and opportunities.

Increasingly, families also try to involve as many members as possible in agreeing the broad strategy, which includes the purpose of the wealth and key objectives. Such discussions are crucial to the preparation of a family charter or constitution and the process of drawing up a charter is often more beneficial than the document itself, as individuals with very different perspectives come together to reach common understanding.

## DEFINING THE LEADERSHIP ROLES

In the past there was often only one leader, but in the current complex environment, there are several

different forms of leadership required, which will vary considerably from one family to another. Realistically those roles may have to be adapted to the abilities of the individuals available, but there may be as many as six main areas to consider:

1. Running the family business or estate
2. Managing direct investments
3. Wealth management  
(including liquidity management)
4. Philanthropy/Impact investing
5. Leading the family itself, including the 'non-financial' legacy for subsequent generations
6. Preparing the next generation

The requirement for business leadership is self-evident where there is a family business or family estate, but it is made particularly challenging by the need for a productive relationship with the leadership of the family itself, representing the interests of even the smallest stakeholders. It is now common for an external candidate to be selected as CEO, but the family will still need to exercise their responsibilities as owners and be deeply involved with major strategic decisions.

Those without a family business also face a myriad of challenges selecting leaders to oversee the management of their wealth, their art collections and philanthropy, as well as handing down the broader family legacy.

## SELECTING POTENTIAL LEADERS

The process of choosing leaders for a family is not a new concept, but one that has evolved considerably over time.

In the past, the eldest son would often be expected to assume leadership of the family, but a challenging and fast changing environment has led to the following:

- leadership is no longer a birth right, but a demanding responsibility requiring relevant qualities and experience
- selection of leaders must balance the need for creative asset building skills with the need for caution, fairness and the promotion of family values

- leadership is not so frequently left in the hands of one individual, but ideally spread across several family members with different roles, to achieve a proper balance and debate
- individuals selected should demonstrate the particular qualities required for each role
- selection is likely to reflect views of family members more broadly, rather than just the existing leaders, sometimes involving a formal process

Where there are not enough family members equipped to cover the defined roles, it will often be necessary to adapt roles to suit the skills of individuals and make additional use of external advisers, trusted family friends and trustees in a supporting capacity (e.g. chairman of family council).

## LEADERSHIP PREPARATION PROGRAMME

All potential leaders will need the following:

- genuine willingness to take on the role, given all the pressures and responsibilities it entails
- deep commitment to the purpose of the wealth and family values, as described above
- close grasp of legal and moral obligations both to the family and wider society
- detailed understanding of structures and decision making processes (family governance)
- general understanding of business and wealth management
- familiarity with family assets, sources of wealth and the family members who depend on it
- communication skills and empathy to relate to needs, views and capabilities of family members across generations and their wish to be 'involved'

The preparation will need to be carefully planned, but on the other hand sufficiently flexible for individuals to explore, develop and fulfil their own ambitions. On the whole, well rounded, fulfilled and self-confident individuals make the best leaders.

The use of mentors is increasingly common, as even the prospect of leadership can create a barrier between an individual and other family members and friends. Having an experienced mentor to help think through ideas and handle challenging

relationships can be invaluable. Mentors must be carefully matched to the individual and selected from a variety of sources, including non-family executives in the family business, friends from other business owning families, trusted advisers and ‘professional’ mentors/coaches.

There will be additional requirements specific to the leadership roles identified:

## **BUSINESS/ESTATE MANAGEMENT**

In the past it was common to work at a junior level in the business or family estate to ‘learn the ropes’ and/or to get outside experience with a competitor. Potential leaders would often gain additional professional experience and qualifications as Chartered Accountants, Lawyers, Land Agents or Investment Bankers, or serve in the Armed Forces.

All of these remain useful preparation both for business and family leadership, but in recent years, the emphasis has shifted towards gaining experience of the wider world, in particular the applications of new technologies and of investing in emerging markets. Such experience not only helps develop a better understanding of the modern world, but helps cultivate a ‘mind set’ which is more open to change and better able to reposition the family business or estate for the opportunities and threats which arise.

In many families there are now quite strict rules (often included in the family constitution) to prevent family members taking leadership positions in the business without demonstrating the necessary experience and competence.

## **DIRECT PRIVATE EQUITY/IMPACT INVESTING/ENTREPRENEURSHIP**

Some families engage actively in direct private equity investment, almost as a natural extension of their business culture and part of their contribution to society. Increasingly they are also seeking involvement in so called ‘impact investment’ where the assessment of the opportunity is based not only on the financial return, but also on the potential benefit to society.

In the past, many families believed they enjoyed some advantage in such types of investment, arising from their business experience, contacts and knowledge, but have often underestimated the skills and resources required to run a portfolio of direct investments on a professional basis.

If a family ‘purpose’ includes direct investment, it is now vital that family members gain significant experience in this area, and prove themselves competent. This experience can be gained by working in a private equity firm, or by having access to limited pools of family money to be invested alongside experienced professionals, as part of the learning process.

## **WEALTH MANAGEMENT**

In the past, families have relied to greater or lesser degrees on outside professionals to support their wealth management needs. However, the financial crisis, a decade ago, highlighted the fact that investment is now a massively complex area and that clients did not always fully understand the risks inherent in the products they had been sold (and nor did their advisers!).

It is obviously desirable for family members to have the knowledge and experience to challenge the advice received. This experience may be acquired by working in the asset management sector, but also by becoming involved with the family investment committee at an early stage and being encouraged to acquire the knowledge to make a useful contribution.

## **THE FAMILY**

A failure of family leadership can be far more damaging than a failure of business leadership or wealth management, so its importance cannot be overstated. It can be divided into two main roles:

1. Leadership of the family (often head of the family council) requires an individual with the interpersonal skills to understand and represent the interests of all family members, whilst also having the knowledge and skills to challenge those taking the lead in business, private equity and wealth management. The most crucial

quality is sometimes the personal stature and confidence to stand up to assertive business leaders.

2. The second role is that of custodian of the family culture and values, including imparting those values to subsequent generations. This role usually exists somewhere in the family on an informal basis, but perhaps now requires more formal recognition, resources and processes. It may combine well with the head of family philanthropy.

In both cases the first layer of preparation is early involvement in the running of family affairs, but can be supplemented by formal training and work experience in relevant areas.

## PHILANTHROPY

For many families, philanthropy is central to their legacy. It is often tied in with preparing the next generation, helping them understand family values, gain commercial experience and benefit from working together, in the interests of the community.

Philanthropy has become much more professionalised than in the past and demands more sophisticated and experienced leadership. Unlike impact investing, no commercial return is sought, but professionally run foundations now attempt to measure the value delivered by their donations and require similar disciplines to investment management.

## MANAGING THE TRANSITION

However good the preparation, the transition of leadership from one generation to the next can be a difficult and sometimes protracted, which can cause lasting damage to family wealth. Retiring leaders often find it hard to let go, while the incoming leaders have deferred to their elders for so long that they find it awkward to do otherwise.

It is not unusual for a 'retiring' leader to continue attending the office and, whilst their experience can be useful if communicated sensitively, their views on day to day operations can be confusing for all concerned, including employees.

The likelihood of friction can be reduced by a well-planned transition, with a clear route map, and providing support to both generations in adapting to the new relationship. This is a very good example of where experienced mentors can play a valuable role.

## CONCLUSION

Every generation feels it faces exceptional challenges, and no doubt those who had to rebuild family wealth in the aftermath of two World wars thought they faced a tougher job than most!

However there is evidence that the current rate of change is exceptional, particularly advances in technology, which is altering the dynamics of family leadership. It can require a reappraisal of traditional approaches to preparing the next generation, including the leadership model.

Most families with business interests (including family estates) need leaders who can keep pace with the modern world and are able to adapt to a fast changing environment. This means more broadly based preparation than in the past.

But the counterweight is that there is greater need for family leadership responsibilities to be shared with others who have both the knowledge and stature to debate the key areas of risk and ensure the interests of all family members are properly protected.

Perhaps most importantly it can be argued that the younger generation needs to become involved at an earlier age. There are families who seek to protect their children from the implications of substantial wealth, so that they can grow up and develop as relatively normal people, but with modern media and transparency this is becoming increasingly difficult.

## FOR MORE INFORMATION



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Matthew is a Partner in the Group, responsible for helping clients develop and implement plans for passing on their legacy to subsequent generations.

A former army officer, he joined the family firm in 2012 after thirteen years as a professional cricketer. He has held various positions within the business, including Managing Partner of Fleming Media and a Director of Ian Fleming Publications and James Bond Enterprises. Educated at Eton, he was commissioned into the Royal Green Jackets in 1985. He has also had a number of external non-executive appointments, including ten years as a Director of the England and Wales Cricket Board. He was President of the MCC in 2017.



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Before joining the Group, Lucy worked at Deloitte in the Family Enterprise Consulting division focusing on governance and succession planning for family businesses, having previously worked in their private client tax practice. Prior to this, she worked in Prime Brokerage at Barclays Capital. Lucy is a Chartered Accountant and won the Society of Trust and Estate Practitioners 'Young Advisor of the Year' award 2017/18.

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