

FAMILY GOVERNANCE AND SUCCESSION

Family Office



STONEHAGE
FLEMING

NOW AND FOR FUTURE GENERATIONS

FAMILY GOVERNANCE AND SUCCESSION

As a family office, a key focus of Stonehage Fleming is the protection and preservation of family wealth through the generations.

Family Governance and Succession is fundamental to everything we do to support families. Our team helps families agree upon a plan that spans the generations and goes on to identify and mitigate the risks to achieving it.

To be effective, a Family Governance and Succession strategy must go far beyond traditional estate and tax planning. It is the process by which families agree the purpose of their wealth and develop communication techniques and a decision-making framework to help make that purpose a reality.

THE FOUR PILLARS OF CAPITAL

Our team, led by Matthew Fleming, a fifth generation member of the Fleming family, understands the real risks to intergenerational wealth.

Since 2013, we have published three research reports with the broad theme of 'Wealth Strategies for Intergenerational Success'. Through our research, which includes regular discussions with over 150 families and their trusted advisers, we have developed a framework that we call 'The Four Pillars of Capital'. These refer to the financial, intellectual, social and cultural capital which families have built, sometimes over several generations, and which combine to give a family the best chance of sustainable, multigenerational success.

The foundation of these Four Pillars is an agreed purpose, which we passionately believe provides the foundation for a successful family strategy. The Four Pillars are also an excellent framework to help families identify risks as well as ensure their governance structure is fit for purpose.

The Four Pillars of Capital reports highlight that the main threats to the successful preservation of family wealth are intangible risks such as:

- ▶ Family disputes
- ▶ Inadequate planning
- ▶ A failure to engage and appropriately train the next generation
- ▶ A lack of leadership

We work with families individually and collectively to help them establish a framework for decision-making that identifies and mitigates these risks to the family and its wealth in the future.

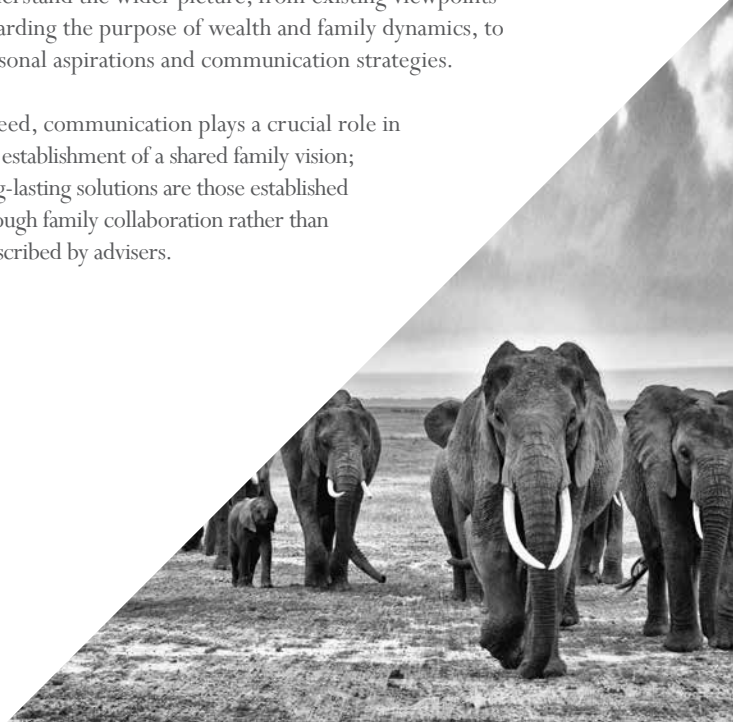
Every family we support faces its own unique set of challenges and opportunities, whether it be as custodians of wealth or a family business. However, based on our experience of working with families around the world, we know that all families can benefit from being involved in a process that enables them to best articulate their purpose, vision and values. A family-wide understanding of their collective purpose should be the starting point for every decision the family will make; from lifestyle, to investment strategy, to next generation engagement.

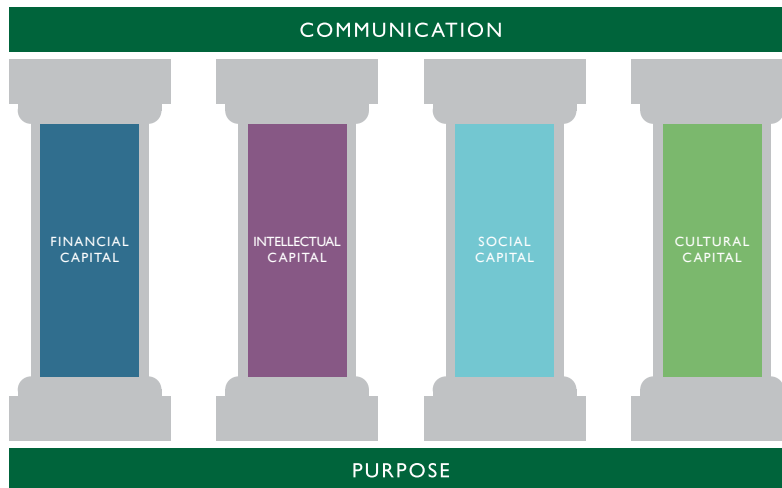
In almost all cases we work with the whole family to understand the wider picture; from existing viewpoints regarding the purpose of wealth and family dynamics, to personal aspirations and communication strategies.

Indeed, communication plays a crucial role in the establishment of a shared family vision; long-lasting solutions are those established through family collaboration rather than prescribed by advisers.

Almost 30% of respondents consider family disputes or break ups as the greatest risk to long-term family wealth.

Source: Four Pillars of Capital: Managing risk in an age of upheaval, 2023





FINANCIAL CAPITAL

The tangible assets, business, properties, investments and intellectual property of a family which have quantifiable financial value.

SOCIAL CAPITAL

The way in which a family relates to and engages with society and the communities in which it lives and operates. This includes the network of contacts which help a family to use its wealth and other assets to the benefit of society and/or the good of the family.

INTELLECTUAL CAPITAL

The accumulated skill, knowledge, experience and wisdom a family can apply to the management of its wealth, its contribution to society, the individual fulfilment of its members and its collective wellbeing.

CULTURAL CAPITAL

That which brings a family together by identifying shared perspectives and themes in the way its members conduct their lives. This includes their approach to business, treatment of others, contribution to society, attitude to wealth and their values.

WHAT WE DO FOR CLIENTS

FACILITATION

- ▶ Work with families to understand individual and collective aspirations across generations.
- ▶ Support families as they agree and articulate a shared purpose and vision.
- ▶ Prompt difficult conversations; identifying and mitigating real and potential risks.
- ▶ Create a set of protocols for decision-making to prepare families for inevitable events and difficult scenarios.

TRUSTED ADVISER

- ▶ Act as a sounding board for all family members, ensuring that they each have a voice internally, and can speak as one externally.
- ▶ Coach or mentor next generation family members, supporting a smooth transition between generations, with the aim of ensuring that both leadership and wealth are responsibly received and given.

- ▶ Voice both sides of an argument to ensure any decisions are fully considered.
- ▶ Use our experience of working with other families to provide examples of what has and has not worked and to offer additional perspectives.

COORDINATOR

- ▶ Work with family and non-family members (e.g. protectors, trustees, professional advisers) to support the establishment of an effective succession plan and an aligned family governance structure.
- ▶ Encourage productive communication within the family, as well as between a family and its businesses and assets.
- ▶ Assist families with the creation of appropriate documentation, which articulates the values, vision and guidelines for a family to follow, if appropriate.
- ▶ Create a next generation education programme to assist future family leaders.



THE PROCESS

1. IDENTIFYING A NEED

It is always best to start governance and succession conversations while families are harmonious, topics are hypothetical and attitudes objective.

However, catalysts for conversations include:

- ▶ Approaching a period of intergenerational change
- ▶ A review of existing governance and succession plans
- ▶ Changing family circumstances
- ▶ A liquidity event
- ▶ Family disagreement or disputes
- ▶ An unexpected event such as ill health, loss of capacity or divorce

2. STARTING THE CONVERSATION

Our process begins with a conversation with the family leaders to establish the parameters for discussions. It continues with a series of confidential conversations with each member of the family to cover individual perspectives of the wealth and aspirations for the future, as well as understand family dynamics and relationships. We then facilitate a family-wide discussion to reflect on the themes that emerge, without ever undermining the individual trust.

3. PURPOSE, VISION AND VALUES

We support the family as they agree and articulate their purpose, vision and values, or whichever guiding principles they feel most appropriate. This process is critical, and can be formalised in a standalone document or it can be a significant step towards creating a family constitution or family charter.

4. NEXT STEPS

We often continue to work with families to provide assistance with a variety of services, including:

- ▶ Supporting the family as they agree the appropriate decision-making framework and governance structure, which may include the preparation of a full family constitution or charter. We can assist with the ongoing review of the governance framework should the family require this.
- ▶ Reviewing existing structures, arrangements and strategies to ensure that they truly reflect the family's purpose and are aligned with the aforementioned governance structure. Where appropriate, we would always seek to work with a family's existing professional advisers when conducting such a review. This could include, but is not limited to, discussions about wills and letters of wishes, trusts, tax planning, investment strategies or shareholders' agreements.
- ▶ Facilitating family councils or periodic family meetings.
- ▶ Coaching and mentoring the next generation to ensure that they are best prepared for their varying roles and responsibilities as custodians of wealth or within the family business.

PREPARING THE NEXT GENERATION

As the future custodians of the family wealth, it is crucial that the next generation feels able to have meaningful conversations, play a part in key decisions and understand their role – be that in a family business, running an estate or engaging with wealth from an investment or philanthropic perspective.

One of our primary roles is to help equip future generations with the relevant skills and experiences to manage their current responsibilities, as well as preparing them for the challenges and opportunities that they may face as future leaders. We support them throughout their journey of engagement with the family wealth, across all Four Pillars of Capital.

We engage with the next generation as early as appropriate, running two 'Next Generation' programmes a year. We also have experience in coaching and mentoring and provide bespoke training, tailored to focus on siblings, cousin consortium groups or a wider family (and non-family) network. Whilst our training sessions cover the financial aspects of a family's wealth, they also focus on the importance of leadership, communication and values. We actively support the next generation with the establishment of their own personal network of contacts in their peer group, and beyond.

The Four Pillars of Capital are a vital tool for us in our support and education of the next generation as they begin the process of understanding the responsibilities that go hand in hand with the privilege of wealth.

CONCLUSION

We cannot emphasise enough the importance of an agreed intergenerational strategy, a clearly articulated purpose of wealth and a shared understanding of an effective governance structure that provides a framework for decision-making.

We do not impose solutions. We use our extensive personal and professional experience to support families as they develop their own purpose

of wealth and identify and mitigate the risks to achieving it.

In our experience, families who engage all members across the generations and ensure understanding, even if not total agreement, generally identify and manage the risks to their family and their wealth the most effectively. We truly believe that this is the foundation of any successful family governance and succession plan.

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