Holistic Model for Stewardship

We are often asked how a focus on family and the non-financials integrates with traditional wealth advisory roles. Put simply, it is all about the human and intellectual capital. We see these elements as the essence of the family office and the basis for all the subsequent activities a family pursues.

For many people this still raises a series of questions, in particular what problems this family component is trying to solve and how it fits with the existing advisers supporting the family. As a way of clarifying the relationships with traditional wealth, legal and accounting roles, we developed the following model:

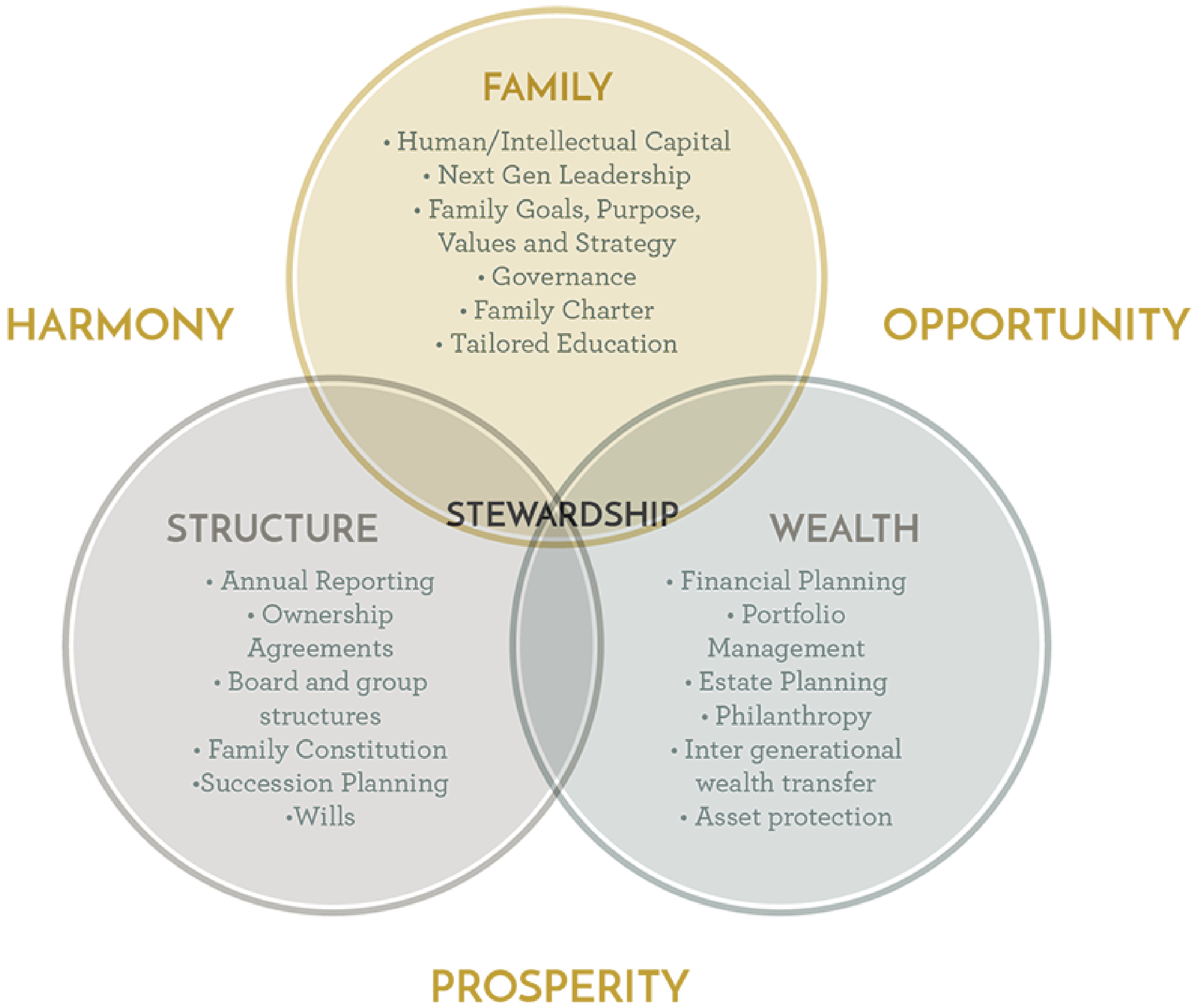

Figure 1: A holistic model for stewardship

In many respects, the process of engaging advisers would be smoother if a family started by defining its values, purpose and strategy, then focused on creating a foundation of strong governance and clear protocols with an empowered, harmonious, educated family unit. This of course assumes a level of organisation that most families may not know how to get started, even with a picture of the future in mind. Instead, let's consider the organic development of a family and how the support of advisers follows a natural cycle of challenges and priorities.

At the start, families are often faced with transactional safeguards and structural problems to solve, for example, to complete a complex tax return, draw up a Will or create an ownership agreement.

In response, families often engage an accountant or a lawyer. As resources grow they may seek wealth advice, which could include experts in philanthropy, financial planning or asset protection. As a result, alongside hard work and good fortune, the first phase in the cycle emerges – prosperity.

1. Prosperity

The wealth created within a family is typically structured with the goal of sustaining a level of prosperity. Often, this will be aligned to the needs of the existing family leaders; to the interests and ambitions of the original wealth creator. As a result, it is rare for existing advisers to have significant contact with the broader family or the next generation. Communication is focused on the family patriarch or matriarch.

Significant life or liquidity events often compel families to think more deeply about what it means to be wealthy and the impact of the prosperity they have created.

Life Events	**Liquidity Events**
Retirement	Wills
Marriage / Divorce	Estate Planning
Ageing / Mortality	Succession Planning
Lifestyle / Poor health	Sale of a Business
Birth / Death	IPO

Figure 2: Life and Liquidity Triggers

These triggers bring a focus on estate planning, portfolio management and asset protection through trusts and other vehicles. In turn, this can force a family to consider the dynamics and relationships, raising important questions:

- What can I do to help my family make well-informed decisions?
- How do I determine what is too much to inherit?
- How can I avoid entitlement?
- Am I confident that my children have the capability to sustain the family resources?

Answering these questions regularly shines a light on family dynamics, the readiness of the next generation and the risk of potential conflict in the family.

2. Harmony

The immediate goal in this phase is harmony. Supporting the family to re-balance and re-align to the new reality of additional wealth or transitional wealth between generations. This is where the family dynamics in the top circle emerge as a central theme.

Our role therefore starts by addressing a need for family harmony, something that can only be achieved through open, honest communication. Creating shared values, purpose and strategy helps families become more stable and aligned. Some families need to have the tough conversations about conflict, entitlement or successors.

Conversations back around the kitchen table provide an opportunity for family members to share their hopes, ambitions and goals, to impart wisdom and build a shared family story. These discussions can be used to help build a respectful and productive governance model; a guidebook that shapes interactions and protocols for the future.

Deeper conversations about wealth, what it means and how the resources can be utilised move the family towards an additional goal: new opportunities.

3. Opportunity

Once the intent of family leaders to put existing family resources to use for future generations becomes clear, the conversation shifts towards what can be achieved. This is an exciting, hopeful conversation. What are the driving goals and ambitions of future generations, and how can the resources within the family be used to support these goals? How can future leaders impact business and society?

To deliver these opportunities, family members have to address their individual education needs and gaps. This is where traditional family advisers can play an important role; for example, educating and guiding the broader family in the structure of the family assets and decision-making processes.

4. Stewardship

The final challenge is for family members to look beyond themselves and focus on stewarding resources for future generations. To do this successfully, all three parts of the model need to work together. The family needs to grow and sustain its wealth and resources. It needs to be structured appropriately with the growth and development of human and intellectual capital.

To facilitate stewardship, advisers need to work together, to share information and bring that transparency to the family. Communication models change in this regard. Strategy is driven by the family and owned by future generations. Advisers are brought in to solve specific technical challenges, individually and in an open forum.

5. Family Patterns

Not every family will follow a path in the order described here, nor will they need every element within the three circles. Each family will have different objectives and timelines. Generally though, it is hard to achieve stewardship without a combination of the three circles and without advisers across these three areas working together. The model also assumes the family has a progressive view of wealth. And it is dependent on a desire to maximise the human and intellectual capital in the family. You can read more about this shift in the article From Ownership to Stewardship

We believe in using specialist advisers for specialist activities, targeting advice to specific problems. Our advice around the non-financials integrates with traditional wealth advisory roles. It is a complement to the existing advisers that may be supporting a family.

From Ownership to Stewardship

Unprepared children can erode family resources far quicker than poor wealth management. Yet we continue to value traditional measures of asset protection over the readiness of our children to lead our families and steward the wealth.

Over the past few years, we've begun to see a shift. This old model of ownership is being replaced by a new model of stewardship. The table below captures this transition:

Old Model – Ownership	**New Model – Stewardship**
Protecting the assets	Putting assets to use
Financial capital	Human and intellectual capital
External governance	Self governance
Limited information sharing	Transparency of information
Limited decision making	Collaborative decision making
Education by external institution	Education tailored to each individual
Profits	Profit with purpose
Assets transferred after death	Assets shared when alive

Figure 1: From Ownership to Stewardship

This new model is central to our philosophy. As a result, I've been examining these ideas with different families and family advisers and have recorded some of these conversations in the podcast series 'At the Kitchen Table'. A good example of the difference between the old way and the new way was in my first interview, with my father.

My family story goes back six generations, and our history links to the Lousiana purchase. I picked up the story with Dad when he became the executor of my grandmother's estate. What I learned through this conversation was that the strategy and overriding focus passed down from his father was tax effectiveness. The purpose for my father was to split the assets (which included businesses, trailer parks in Washington and land in Louisiana) and give each sibling their own share as efficiently as possible. There was no consideration given to the enduring legacy of the wealth into future generations.

Imagine what could have been achieved if my family had worked together and stewarded that wealth. My Uncles and Aunts are all pilots and teachers, yet the potential conflict and the tax implications won over. My Dad believed the worst outcome was to attempt to make decisions by committee.

As a juxtaposition to this story, the new way appreciates the human and intellectual capital and the rewards that come from putting assets to use as a family. It takes some work: a commitment to push through tough situations and a structure that respects everyone's unique strengths and ambitions. If this can be achieved, it sets up a self-governing process that can be richly rewarding for the family members involved. It can sustain the values of the family, bring the family together and encourage collaboration.

There is also a growing movement amongst the new generation on social consciousness. This is manifested in a shift from family responsibility (providing for my family) to social responsibility (giving back to society).

The new way focuses on putting wisdom and wealth to use in order to maximise the human and intellectual capital in the family. It also acknowledges that while institutional learning has its merits, there are certain elements of leadership development and financial literacy that need to be personalised in the context of the family and the individual. The best corporate learning programs integrate coaching with traditional learning mechanisms.

The new way accepts the past as it is and shifts the family's focus to the present and future generations. It is about creating situations that allow families to work together right away rather than wait for the loss of a loved one, a familly crisis or some other life event. It encourages families to look at the resources within the family and examine how they can be used now. It asks wealth creators to experience and guide the transition of assets so they are able to enjoy the process and contribute in a meaningful way.

Which way is your family going?