

# Great expectations - raising the next generation of Asian wealth stewards

As wealth across Asia continues to grow exponentially, high net worth individuals (HNWIs) and their families are not only looking for ways to protect and grow their wealth for future generations; they are increasingly seeking ways to ensure the next generation is prepared to become responsible guardians of businesses and family values.

For the foreseeable future, wealth creation in Asia looks set to continue based on the latest Asia Region Wealth Report published by Capgemini and Royal Bank of Canada, which indicates the number of millionaires in the Asia-Pacific region is expanding by three times the global rate. At the same time, surveys estimate that about 80 per cent of wealth in the Asia-Pacific region will be passed on to the next generation over the next 15 years. For many high net worth (HNW) families, this presents challenges that go beyond the prerequisites of finance and investing. Challenges include family-decision making, next generation talent development, family governance and philanthropy.

According to academics and professionals who work closely with wealthy Asian families, a priority for many senior wealth creators is the aspiration for family legacy to be more than just financial in nature. Questions they frequently ask their advisors include: "We want to provide the next generation with their own opportunities to be successful, but how do we support them in a way that doesn't subdue their ambition and drive?" or "How do we help the next generation to maintain core family values?" When it comes to preparing the next generation to take over the reins, communication is recognised as a critical component that binds families together. However, wealth creators and senior family members share that they face the dilemma of how much, when, or even how the concepts should be communicated.

Professor Annie Koh, vice president of the Business Families Institute (BFI), which serves the needs of business families in Asia and is part of the Singapore Management University (SMU), believes intergenerational engagement should be a continuous process that starts as early as possible. "Conversations provide the dynamics that can help families to overcome obstacles that challenge continuity," says professor Koh. For instance, while acknowledging that HNW families, like any family, can have differences in opinions, professor Koh says conversations that address feelings and opinions can help to prevent minor disagreements from escalating into a family feud.

She cautions that different generations of a wealthy family who fail to find ways of working together can bring down the achievements that have taken time and effort to build up over the years. She

says recent Asia-wide media coverage of disputes involving HNW families underline how friction can lead to litigation and even a breakdown of family relationships when wealth creators and their heirs fail to communicate effectively.

While next-generation responsibilities are often thought of in terms of a family's material wealth, professor Koh says the concept goes further to include emotional, social and intellectual wealth. "These are some of the areas where families find it the most difficult to balance interpersonal relationships with the structures necessary to ensure long-term business success," says professor Koh who sits as an independent advisor on the boards of a number of HNW families.

The professor says independent professional guidance can help HNW families to establish a framework to promote interaction between intergenerational family members. For example, a neutral platform creates opportunities for family members to put their skills to use in ways that may not be directly related to the family business. Philanthropy is one such example. "Philanthropy is one of the best tools a family can use to utilise business skills and human and intellectual capital within the extended family," notes professor Koh, who adds that philanthropic activities can be directed to a cause with personal significance for the family or family member. Equally important, says professor Koh, is the need for senior HNW family members to make time for their heirs so they can communicate their values with regards to their wealth and family businesses.

In the same way, the Bank of Singapore (BOS) caters to HNWI and families by providing advice and services that are customised to their investment profiles and financial objectives. Professionals used to working with wealthy families stress that HNW families seeking help with next-generation topics are recommended to select experienced and trusted advisors. "Anyone working with HNW families on intergenerational and wealth stewardship issues needs to be a good listener and have the experience and knowledge to earn the respect of family members of all ages," notes professor Koh.

To avoid the Chinese maxim of paddy-field to wealth and a return to paddy-field in three generations, professor Kevin Au, director of the



Center for Family Business at the Chinese University of Hong Kong Business School says grooming the next generation of HNW wealth stewards should involve the transfer of knowledge, how to continue creating business and wealth and crucially, how to keep it.

"An intergenerational issue faced by many HNW families is how to keep the entrepreneurial spirit burning," says professor Au, who points out that research on HNW family business has highlighted the importance of family cohesion for long-term success. He suggests using the help of professional advisors to set up channels where family members are able to define their aspirations as wealth stewards through the contribution they would like to make to the family business and charitable activities.

Au says parents who believe they can or should conceal family wealth from their children, often run the risk of underestimating the intuitive nature of their children, who may be left with social identity problems. Although equally damaging is to instil the idea that wealth solves any problem. "It is helpful for younger family members to understand how they are individuals living in the midst of wealth and how they can contribute to the collective family values and business ethos," says professor Au.

Christian Stewart, managing director of Family

Legacy Asia, a company that provides advice to Asian families on succession planning says that in practice, while family offices (FO) in Asia tend to focus on preserving family financial capital, there are other areas that should also be taken into account. One such area is to ensure that family members develop the skills to contribute to collective decision making that go beyond family business activities, such as in philanthropy. "The aim is to assist family members in setting up mechanisms to help them fully participate in the different areas of their family's joint decision making processes" says Stewart.

He cites the "three circle model" as one solution that allows family members to contribute to collective decision making. The "three circle model" involves the overlap of the various needs of family members, ownership, the perspective of the owner / investor and how the family's financial wealth is being managed.

"The key to ensuring the "three circle model" operates successfully is having an effective system of family governance," says Stewart. "This includes having appropriate forums for each "circle" and well defined boundaries between them," adds Stewart while emphasising that younger family members need education and guidance to develop the skills to make

well-informed decisions.

Amy Renkert - Thomas, joint managing director with the Withers Consulting Group says that preparing the next generation for the privileges and responsibilities of wealth stewardship is similar to training a top athlete: "The preparation needs to be structured around clear objectives that involve multi-generational relationships."

Keeping in mind that every family is different, Renkert - Thomas says a tailor-made roadmap is necessary to allow family members to achieve a sense of purpose and commitment. Yet a roadmap or framework is just the first step. Each family member needs to define and express where their skills and abilities fit in with family values and goals. "From experience, when family members are able to share their feelings and aspirations in a framework that has been tailor-made for them, the opportunities for the family pulling together is significantly strengthened," says Renkert -Thomas.

Ken McCracken, joint managing director, Withers Consulting Group agrees. "Creating a roadmap to guide them provides an opportunity to define family values and objectives while setting a path for succession planning and various fiscal arrangements," says McCracken.