The meaning of wealth in the 21st century

unlocking the secrets
of successful families

withersworldwide

Introduction to the meaning of wealth

What does it mean to be wealthy in the 21st Century? Are successful families around the world driven by wealth generation, wealth preservation or the application of their wealth? We recently commissioned a research study to find some first-hand answers to these questions. Through quantitative analysis of the attitudes of 4,500 individuals with more than US$10 million in personal wealth and a further 16 in-depth interviews with multi-millionaires and billionaires around the world, we wanted to investigate the modern meaning of wealth.

Equally importantly, in the course of the research we have sought to identify the valuable lessons that families have learnt from their own experience which they would wish to share with other families facing similar challenges.

The research has spanned three continents – Asia, Europe and the Americas – because we wanted to find out if individuals and families from different cultures really do have a different perspective and experience of wealth and have different lessons to pass on.

The results have provided a fascinating insight into the changing dynamics of family wealth between generations and between continents. What characterises wealth-owning families today is a growing recognition of the importance of purpose when it comes to the creation, control and distribution of wealth. Across all cultures and generations, the sense is that wealth matters because of what you can do with it.

Sarah Cormack
Partner, Withersworldwide

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Executive summary

The start of the 21st century saw the emergence of a global industry of family office and family wealth practitioners. Undoubtedly, this industry existed in previous centuries, but never on the global scale of recent times. The findings from this research show that families are learning from the best practices identified by family wealth specialists. They also show that families are moving beyond an objective of wealth preservation alone, and are finding new purposes for their wealth that in turn give meaning to wealth ownership for each new generation.

This research asked wealth holders what lessons they have learnt that they would wish to share with other global families. Five pearls of wisdom emerged which help to disclose the secret of family success. Each reveals how wealth can be stewarded for the benefit of individual families and society at large.

Transitions are complicated

Whether selling a business, setting up a foundation or passing control of wealth to the next generation, transitions are complicated. At each transition, families need to ask themselves: 'Why are we doing this?' It is only by identifying the objective for each transition that families can discover the common purpose that keeps them, and the family wealth, intact.

Take your time

It may seem obvious, but families are a collection of individuals; not an organisation. So while it may be helpful to think of the family office or family wealth as a business, a typical leadership style will likely be different from anything in the corporate world. Listening, learning, observing, sharing and understanding all take time and that time is well spent.

Embody the change you're looking for

Rightly or wrongly, wealth ownership means that all eyes are on you. As a parent, children will learn their values from what you do, not what you say. As head of a family, your brothers and cousins and nephews and aunts are more likely to get behind you if they can see, celebrate and share your successes. Meanwhile, in the wider community wealth ownership is viewed with greater respect when it can be seen being used as a force for positive social change.

Recognise your limits

The responsibilities of wealth mean there are many roles to play and no single person can play them all well. It is only when you honestly assess your own skills, strengths and motivations that you will spot where the weaknesses lie. Then it is time to call on family, friends and professionals to fill the gaps.

Lead from the back

It may be great to be the third generation, but it is even better if each generation can think of themselves as the first generation with a responsibility to future generations. There are many strategies to achieve this, but most agree that the next generation must be given everything they need to be successful, and no more. They, after all, have a right to their own wealth creation journey. For older generations, this also means learning when to step aside.

The new cycle of family wealth

Wealth at risk

Family money rarely survives three generations, according to an aphorism that exists in many languages and many cultures. Yet the cliché holds an element of truth.

Imagine that you grew up in a family that had created wealth at some point and that you had lived your whole life under the shadow of this prophecy. Wouldn't you want to do everything that you could to disprove the prophecy?

Each of the 16 individual family wealth-holders who took part in this research was grappling with this challenge in their own way. Each was at a different point in the cycle, and some had managed to spin their wheel of fortune into the fourth, fifth or even sixth generation.

The secret of their success was not in understanding the process of wealth destruction. It was in understanding the process of wealth creation and what needs to happen to ensure that the third and future generations remain active and engaged.

The challenge of the third generation

These successful wealth owners recognise that wealth is the product of business and commerce that is often dirty and grimy and requires long hours and often weeks spent away from home. Business may have its rewards, but it is rarely glamorous.

Those who have watched their parents struggle to create an enterprise have often found themselves bound, by duty or desire, to build on that success. So, the challenge really comes in the third generation when the business has often grown too mature, too big or just too difficult to inspire a new generation.

The third generation of successful families are often presented with the option of managing, not creating, a business entity. And it is distinctly possible that their own interests will lie in newer or different sectors of the economy.

This, of course, assumes that succession matches the business needs, so that the second and third generations are of an age and a mind to be apprenticed into the business before their parents bow out. Life, naturally, is not always like that.

And so most families face the decision in their second or third generation of whether to carry on or to cash out and become a financial family.

In a financial family, the business is the money: its management, its stewardship and its division. And money, as we all know, is the root of all evil. So, the collective management of a family fortune requires patience, planning, discipline, understanding and leadership to achieve the long-term legacy to which all wealthy individuals are meant to aspire. In reality, many would rather spend and enjoy it and live quiet, relatively normal lives.

Finding a purpose

So what did those who have been successful in stewarding family wealth do differently? They recognised that wealth creation is the fortunate by-product of a sense of purpose. Wealth destruction, on the other hand, is almost always the unhappy by-product of a sense of privilege or entitlement.

> *'Rather than counting their money, the most successful are making their money count by taking practical and incremental steps to be economically and socially active.'*

Some have focused on how to inject purpose back into the family formally through family mission statements, governance strategies, leadership training and education. Others have sought to get back into business, using their wealth to establish new family-owned enterprises. Others still are looking to leverage their wealth for social good through philanthropy or through social investment that allows them to give back or re-invest in wider society.

Rather than counting their money, the most successful are making their money count by taking practical and incremental steps to be economically and socially active.

Worlds of difference

Interestingly, as we look around the world, wealthy families from different continents are at different points in this wealth cycle.

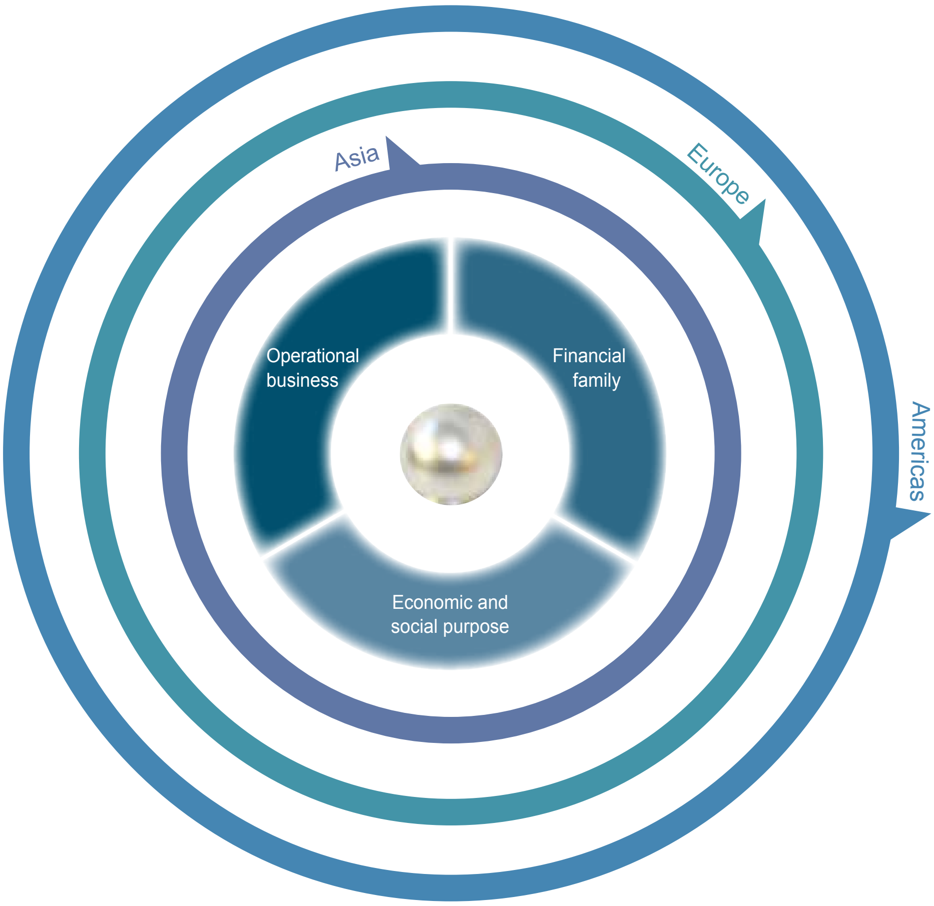
Blessed with several generations of relative economic and political stability, North American wealth owners have had the longest experience of transitioning wealth from operational businesses, through financial family structures and back into the wider economy and society, without fear of corruption or confiscation.

European families are not far behind, although many are wrestling with the challenges of holding together a financial family. Meanwhile, across Asia longer lifespans and globalisation are shaking the strictures of familial duty as grandfathers, sons and grandsons clash on the question of 'what next for the family business?'

Inevitably, in our increasingly connected world, these regional stereotypes are far from rigid. Many families are global and their pressures come from genetics, not geography, but the pattern provides a framework for considering what families are learning from each other across the generations and across the globe.

Through the rest of this report, we will take our lessons directly from families at each stage of the life cycle of wealth and share their experience of what it takes to be successful through the generations.

Figure 1 **Life cycle of wealth in the 21st century**



Asia's powerhouses

Tradition and change

The most striking thing about talking to family members in Asia on the subject of their wealth is the vast range of insights and perspectives. For every wealth creator who is passionate that the brightest future for his children is in the family business, there is another who is equally persuasive about the benefits of letting children follow their own course. And for every family business that has passed successfully from father to son to grandson, there is another that has been battered by the storms of political, economic and family instability.

Amid all this variety, Asia's business-owning families are facing the same question: are succession strategies that take them away from their cultural heritage the right thing to do?

Much of Asia's economic success is intimately bound up with the strength of its leading business-owning families and vice versa. Outsiders have generally not been invited to the decision-making table and both cultural and religious practices often dictate the duties of fathers and sons in the family and the family enterprise.

Differing perspectives

Yet, in the 21st century, globalisation and the happy fact that many of us are living much longer mean that traditions are being challenged. As the second generation waits in the wings through the decades, the third generation is learning the best of business practice at the world's top universities. Thus, when the moment comes to decide the future of the family business, there are three generations with three distinctly different points of view.

In the words of one Asian wealth owner: *'In Asia, we have three generations living side by side. Generation one is all about legacy. Generation two is filial and Confucian, and generation three, my generation, is saying that we have been away from Asia for 15 years and while we have a sense of obligation, we also want flexibility. We have got two generation shifts happening at once, so the hard business stuff has become the easy stuff, and the soft family stuff has become the hard stuff'.*

The choices facing these families are not simple. Staying ahead in the red-clawed world of commerce often forces families to pull together and to share common goals. Those that transition out of business to become financial families often lose that sense of common purpose.

Yet, those families in Asia that are choosing to stay in business together are facing the challenge of agreeing common ground for the introduction of Western-style business practices, championed by the upcoming generations.

To cope with this complexity, family business leaders in Asia are seeking to learn from the experience and best practices of families that have gone through these transitions already in other parts of the world; then mould those practices to suit their own circumstances and style.

Pearls of wisdom from Asia

Hold true to values (generation one)

Personal experience
'My father was one of the many people displaced in Asia in the last century. My father was a businessman and he brought his skills and adopted this country as his own. He was a very humble man and I learnt from him.'

Lesson they would pass on
'Values cannot be taught. You have to inculcate them through your own actions. I believe in honesty, integrity, keeping your word and always seeing the other person's point of view. I am not sure children should be encouraged to take a job outside of the family. In the early years, they will only be making coffee. It is better for a parent to teach children about business by example.'

Maintain the family business (generation two)

Personal experience
'I didn't want to go into the family business, but I chose to because I wanted my father to retire. I had the advantage that I had seen the outside world. I had learnt about marketing, creating wealth and controlling wealth, investment and investing.'

Lesson they would pass on
'Don't try to mould your children. You don't want to deprive them of their own way to create, control and invest. You can't impose that they come back to the family business.'

A new generation of entrepreneurs (generation three)

Personal experience
'My father followed his father and was a successful businessman with interests ranging from property development to infrastructure and manufacturing. He had his children and sons-in-law working for him. The business took a nose dive in the mid-1980s and we were all affected. I was the one who got away. I went to university instead and I learnt a big lesson from what happened about the importance of making sure the family is not all tied up in one concern.'

Lesson they would pass on
'It is better to let children find their own way. I will support my children financially and as a mentor, but they have to find their own way. When I pass away, they will have the family name, but nothing else. If they want to come into my family business, they can, but they will have to earn their place, just like everyone else.'

Sell out or soldier on

These challenges, of course, are not unique to Asia. In every country and in each generation, business owners and business-owning families face the choice to sell out or soldier on. These choices are as often dictated by circumstance as they are by hard-headed strategy.

On the one hand, the ownership of a family business can be a powerfully cohesive force for different generations and different family branches. On the other hand, the talent for making money requires a special blend of qualities and skills that may not be present equally across family members, or indeed across generations. Then, of course, there is always the small matter of luck.

This is perhaps best illustrated with a wider analysis of the attitudes of the world's wealthy. An analysis of more than 1,000 individuals suggests that those who are most financially successful concentrate significant effort on a number of what might be called 'success tasks'. The participants were asked to rank how much energy they gave to a range of tasks, including 'doing things differently', 'making things happen', 'having a passion for knowledge', 'hunting out new opportunities', and 'being good at building relationships' (Figure 2).

What is striking in the analysis is that those whose personal wealth was in excess of US$10 million indicated that they put more energy into these tasks and achieved commensurate success.

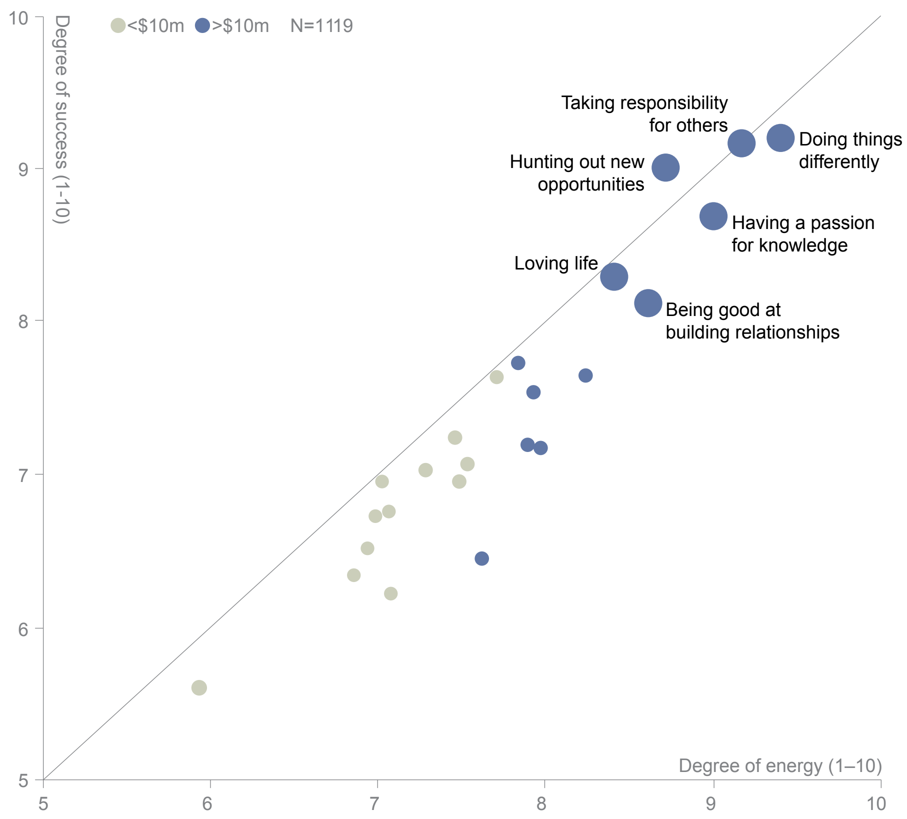
In particular, the most financially successful individuals feel the effort they put into doing things differently, hunting out new opportunities and taking responsibility for others is rewarded with success.

Pass it along

The challenge for many wealth creators is how to pass this energy and drive from one generation to the

Figure 2 **The essence of success**

Question: How much energy do you give and how successful are you in each of these areas?



next – if indeed these are transferable qualities – in order to keep the family business in the family.

It is not uncommon for first generation wealth creators at the pinnacle of their success to have the sudden realisation that their own succession is in doubt. Equally, if the business is a wider family concern, the family will face transitions when the money-making talent within the family ebbs and flows.

'A business family is bigger than the family business.'

The challenge for individual wealth creators and business-owning families alike is to try to spot these succession issues early enough to put a strategy in place to manage the transition.

Few, it would seem, feel they anticipated these moments of change in good time; and those who did often warn of the complexities of planning what happens next.

Finding help

The most common piece of advice these individuals sought to pass on was the importance of bringing in professional support early on. Whether that means bringing professional managers into the business or seeking professional advice to support family transition, outside opinion is vital to helping family businesses make decisions that are both good for the family and good for the business.

As one Asian family business leader observed, family business has its advantages, but that should not blind business-owning families to the challenges of remaining ahead of global business competition.

'If you are a business-owning family, then the rationale is clear: the family needs to work together to make sure capital isn't destroyed. However, you still need professionals involved because, without them, you may fail to have the difficult business conversations that will allow you to remain competitive.'

Equally, he highlights that, in a family business, business decisions are rarely wholly motivated by business goals. There are often wider vested interests among family members that are also best tackled with professional support.

'At the end of the day, you have to accept that a business family is bigger than the family business. As a leader you have to be open-minded and accept that other people are sometimes smarter and better than you. You cannot hope to make good business decisions with just one discipline: you need lawyers, accountants, psychologists and historians. A business family has to be multi-disciplined and that means accepting outside help sometimes'.

Dynastic dilemmas

In tandem with seeking professional support from outside of the family, business-owning families often also look inward to determine how best to equip their own natural successors to follow in their parents' footsteps. Here there are as many strategies as there are parenting styles, but a common theme emerges that the next generation should be given everything required to get ahead in their own right, and no more – because, with too much, comes the great fear of entitlement and that a generation will be lost to the affliction of privilege.

Equally, many believe that advances in business education, as well as shared knowledge and professional expertise on best practice in family business means that the upcoming generation has a golden opportunity to convert the business theory they learn in school into family business success.

As we have already seen in Asia, up to three generations may be wrestling with the challenge of assimilating this newly-learnt business knowledge into traditional family businesses. On this subject, family business leaders talk of the need to be open-minded to what the next generation can bring to the family business from their time spent studying and building their own professional careers outside of the family business.

Go your own way

In Asia and elsewhere, it is a widely held view that younger generations should be allowed – and even encouraged – to forge their own path outside of the family business. And if – and it is a big if – they wish to join the family enterprise, that rite of passage must be done on merit, not as a result of nepotism.

Indeed, at the extreme end of this spectrum of views, a significant number of wealth owners who took part in the research commented that the next generation should not expect any involvement in the family business and should expect to forge their own path entirely.

As one international wealth creator observed: *'You have to allow your children independence: they have a right to their own wealth creation journey. They have to take responsibility for that and be accountable to themselves'.*

This extreme view is undoubtedly reflective of the reality that the wealth creation capacity of one generation is rarely repeated in the second or third generation. Indeed, for every success story of generation two, three, four or six that has followed in the family wealth creation footsteps among the research participants, there were an equivalent number of tales of estrangement and unmatched expectations between parents and children.

The simple truth is that transitions within families are complicated. As we will see later, many families are starting to consider if there are different or better ways to ensure a family legacy than seeking to steward the family enterprise through the generations.

We should expect nothing less from a global grouping of successful individuals marked out by their interest in innovation.

Europe: stepping out of the family business

From business to finance

If there is one thing harder than the transition within a family business, it is the transition out of the family business to become what is often called a 'financial family'; so say many of the research participants. For the individuals within wealthy families who are responsible for this momentous decision, the hardest step forward can be simply to take a step back and recognise that this is a new phase.

It is not uncommon for wealth creators who transition from business owner to financial family to feel a loss of identity when they are no longer in an active business environment. As one major wealth creator who took this step puts it: *'It is like being a concert pianist. You can't take away the piano and expect to be happy listening to other people playing the piano'*.

'It is like being a concert pianist. You can't take away the piano and expect to be happy listening to other people playing the piano.'

Or, if the family is in its second or third generation when the decision to exit is taken, there is often a sense of nostalgia for a business legacy lost to future generations – even if the decision is taken for perfectly legitimate personal, family or business reasons.

For subsequent generations, this can mean growing up with the stories of the 'good old days' and learning to miss a lifestyle they never knew.

Holding it together

In recent times, these transitions from business ownership have been a common theme across Europe. The old continent has an increasing number of financial families facing the challenges of maintaining family cohesion when the core focus of a family business has gone. Bear in mind that once the wealth is liquid, it is far easier to split it between different generations and different branches of the family, which can be both a blessing and a curse.

Fungible assets are generally far less contentious within most families than real assets like properties and businesses that often come charged with a layer of emotional value. Yet, once wealth is liquid it also has a tendency to trickle away.

What wealth preservation requires in these circumstances is perhaps best described as an act of will-power on the part of the family to put in place the governance system around the wealth that keeps the family's focus on a common purpose. This means agreeing on structures, investment strategies and family rules that govern how the money is managed and distributed.

To make this work, families have to come together and decide what matters to them. In the words of one second generation family member: *'Being a successful financial family is about having the right state of mind. You have to decide what you care about as a family, and then you have to make it happen. You have to think of your family office as a business, and make it a business you can be proud of'*.

Pearls of wisdom from Europe

Understand your own motivation (generation one)

Personal experience
'Selling my operating businesses was the biggest mistake I have made. We are all living so much longer. Looking back, I wasn't ready and I certainly wasn't prepared to step into a different role.'

Lesson they would pass on
'Don't get out of your operating business too soon. Being a financial family requires a different skill set and if I had my time again, I would set up my financial business alongside my operating business so I could have learnt from my mistakes earlier.'

Make the family wealth the family business (generation two)

Personal experience
'The shift to becoming a financial family happened before I was of age. I do pine for a business that makes stuff. If you are a financial family, you can just clip a coupon – and the question is whether that is enough for you?'

Lesson they would pass on
'You have to think of your family office as your family business and make it a business you can be proud of.'

Encourage engagement (generation two and generation three)

Personal experience
'We are industrialists: my father and his brother created our family business, but we have shifted too much into finance. That was our big mistake. The generation after my brother were too young to take over the business so we had to make a choice. We thought business would be a heavy burden for the next generation and that finance would be easier. Once we sold, we didn't have the same strategic goals anymore. We have been lucky, the children have been free to choose their own life and two of them are going back into business and another one is coming into the foundation because he wants to do more.'

Lesson they would pass on
'You have to remember how lucky you are, but you also need to remember who you are and where the money came from. Your core value comes from your ability to work and be useful in society.'

Know yourself

Those who have been successful in the challenge of keeping a financial family together reveal two secrets: first, having the self-knowledge to recognise one's own limitations; and second, having a commitment to keep the whole family engaged through regular and active communication.

Taking the former piece of advice first, the most successful wealth owners recognise that managing family wealth requires a different skill set from managing an operating business. The challenge for many successful families is learning to identify the skills they do not have. Then they need to introduce external professionals who not only complement the internal skills of the family, but who can help the whole family to gel. This, as one second generation family member explained, should be a two-way process.

'*My father was always looking for best practice,'* he explained. *'Very early on, he decided our whole board should be made up of external professionals. They are all close to the family and we look after them, by which I mean that we try to keep the job interesting.'*

For him, it is these professional relationships that act as the glue in his wider family. *'These kinds of relationships are so important, because otherwise all you have as a family are a few portfolios managed by investment banks. If you are a financial family, you can just clip a coupon – and the question is whether that is enough for you?, '* he concludes.

Plugging the gaps

Getting this balance between family and professional advisors right can be incredibly challenging. Family leaders have to work out how to bring in the right external skills and personalities, without over-professionalising the structure and blotting out the family identity.

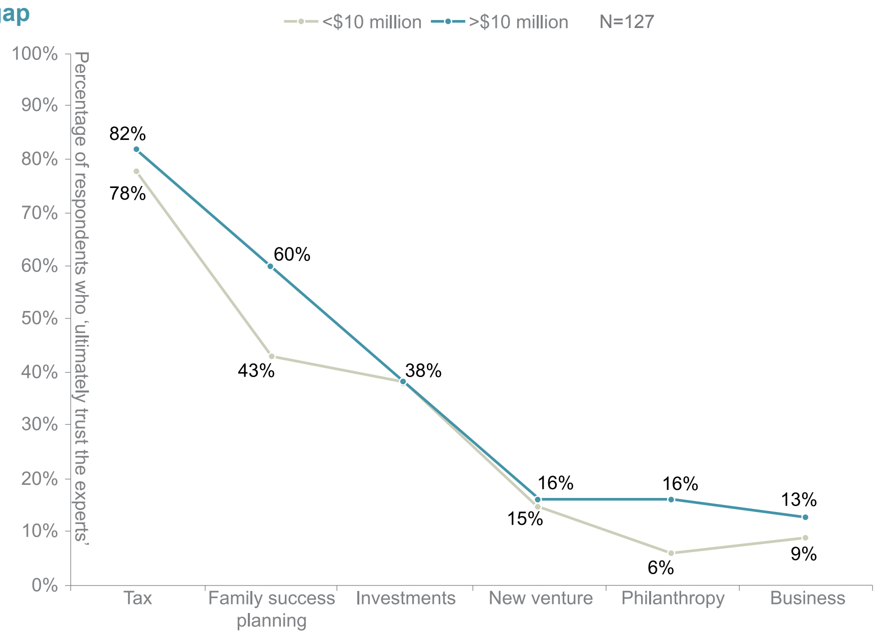
As one wealth creator explained, *'We had a lot of successful business leaders in the family. My challenge, as we shifted from an operational business to a financial family, was to understand the changing nature of the value of our wealth and to recognise that we needed people with the right skills to manage that. At the time, we didn't have outside directors. Our decision was to professionalise and recognise that an operating business is very different from a financial business. It requires different skills.'*

This particular wealth owner would strongly encourage others in the same situation to take their time when

Figure 3 **Bridging the skills gap**

Question: How do you make the following types of decisions?

- 'I ultimately trust the experts'
- 'I ultimately trust my gut'
- 'I ultimately trust the evidence and research'



going through this transition. That time is best spent understanding the skills the wider family can bring to the new situation and therefore determining how to involve them and what kinds of advisors will complement the family's own skills base.

Another family leader advises using specialist recruiters to help to get the balance right. He explains that the professionals who had been appointed by his father were getting on in years and their approach to investing was not in touch with the upcoming generation. As a consequence, individual family members had started to turn to their own advisors. In order to maintain family cohesion, he took the decision to use an external recruitment consultant to take the emotion out of hiring new people.

Since that decision, the new professional team has been in place for more than a decade with the backing of the wider family and very little turnover.

This increased reliance on the technical skills and professional counsel of external advisors would seem to be one of the markers of significant wealth in a financial family.

In a small study of 127 significant wealth holders asking the extent to which they trust research, the experts or their gut when making a range of financial decisions, the results suggest that those with wealth greater than US$10 million are more likely to turn to experts (Figure 3).

Similar studies with much larger samples, focused purely on investment decisions, found that the wealthier group were more than half as likely again to consult regularly with professional advisors than those with less than US$10 million.

Only connect

The challenges of internal family communication are no less complex than the challenges of getting the right people in place. Different family members inevitably have different levels of knowledge, experience and interest when it comes to financial matters. Once the family business has gone, it often becomes increasingly hard to keep people engaged and informed about the decision-making.

Limiting financial decision-making to a small number of experienced family members and their advisors of course makes sense, but it can lead to others feeling cut out of the action. In particular, participants warn that if there is an underlying issue relating to the family money, any sense of disenfranchisement from decision-making about the family finances will only exacerbate the problems.

Best, they say, to take time to understand where each individual family member is coming from: to learn about their issues, their goals and their ambitions within the family. Then, get them involved, to the extent possible, especially the younger generation. Where it is not possible to get all the family members involved, keep them informed – without jargon or obfuscation – about how the financial decisions will help them to realise those goals.

This is not always easy, as different branches of the family will have different perspectives and family leaders must be prepared to step out of their own close family experience to understand any challenges from the wider family group.

Leadership and diplomacy

Those who have managed to hold successful financial families together advise on the need for information-sharing strategies that are at an appropriate level for each family member to absorb.

The family leaders are at once decision-makers, translators and broadcasters across this network of family and advisors.

One of the most experienced inheritors of a family fortune highlighted his approach to this act of supreme diplomacy. *'Family members often think they are unique, with the right skills, so you have to be willing to let go. Sometimes you have to be willing to lead from behind and recognise just because you can do the job doesn't mean that you have to,'* he explained.

'It is like a series of stacking boxes: there is my own family, my extended family; there is family knowledge

and then there is professional knowledge and expertise. You have to have different relationships across this network,' he adds.

In another case, the family has a mission statement that is used at regular family gatherings to help guide the decisions that are taken collectively.

'As a family we have a general set of beliefs about how we engage with the outside world. Our general philosophy is that we should do our best to do as little harm as possible,' explains one family member. 'Twice a year we all meet for dinner. We have a general meeting and discussion about what we have done and what we plan to do in the next six months.'

He adds that these family meetings are run according to a simple set of rules: *'Everyone has to be smart, kind and nice. All jargon is banned and family members can ask any questions they want. The directors are there to answer any questions.'*

'Sometimes you have to be willing to lead from behind and recognise just because you can do the job doesn't mean that you have to.'

He explains that this approach means that all family members – regardless of their generation or experience – feel that they understand the decisions that are being made about the family wealth and that they are involved.

Young guns

These practices relating to communication, structure and governance are all tactics used to keep financial families connected with their wealth and with each other, thus enabling them to benefit from the collective buying and investing power of the family fortune.

Each set of practices is inevitably as unique as the family; however, that does not mean that they are set in stone. Parents age, children grow and often the upcoming generation is larger than the last. All of this means that with each decade there is a need for an evolution and a re-interpretation of what keeps that family together.

Interestingly, across Europe the leadership of many of these financial families is currently transitioning from the first to the second generation. In some cases, these transitions are planned, but not always, and many of these new leaders are inheriting these roles while their parents, aunts and uncles are still alive and actively involved.

Those who have found themselves in a leadership position within their family at an early age advise others to prepare the next generation actively for their potential future role. For these young leaders, empowerment is a watch-word. In some cases, they were lucky to have parents who 'got' the importance of supporting them into this role. In many other cases, they did not.

Taking the helm

One European inheritor jokes, '*The only advice I was given by my parents was not to screw it up.'*

Although on a more serious note he adds: *'As a family member, you are always terrified of losing the money that has been created by your grandfather or great-grandfather. As a consequence of my own experience, I would urge any parent to sit down with their young guns, before they are 40, and help them to make the transition to becoming a family decision maker.'*

Indeed, the same inheritor also observed that the knowledge sharing between families and family wealth advisors has helped to pinpoint the importance of bringing in the next generation to financial decision-making early.

'Everyone these days is aware that there is a wealth creator, a wealth accelerator and a wealth destroyer. We have a lot more access to information than families have had in the past. So, if you want to preserve wealth, you have to find the best steward for the wealth. Today you have good access to knowledge, professionals and infrastructure to help your family to think through this issue,' he observes.

Others in a similar situation say they found their own way through this transition by seeking external wisdom from advisors and peers, and have applied the lessons of best practice to steer their course into the family leadership role.

It would certainly seem to be the case that a growing number of families are ensuring that the next generation are brought into the decision-making early. Research among 400 individuals with average wealth of more than US$10 million found that one-third of those under the age of 50 are part of a family council (Figure 4).

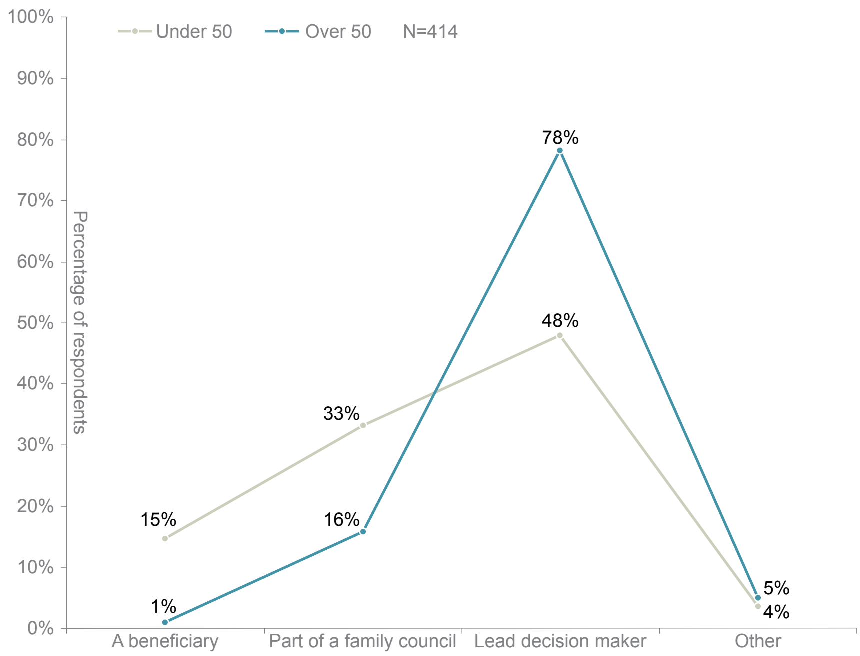
'The only advice I was given by my parents was not to screw it up.'

Moreover, it seems the current generation of financial family leaders firmly believe that the combination of awareness, knowledge sharing and best practice is the formula to break the cycle of wealth destruction.

Given these views, it is perhaps not surprising that the young leaders who are now taking over the reins of their family office are already considering the challenges that their own young children will face when their turn comes.

Figure 4 **Raising the next generation of leaders**

Question: In the decision process for family wealth, which best describes you?



The Americas: redefining wealth

The root of wealth

Perhaps it is concern for the next generation. Perhaps it is a reflection of the desire of financial families to get back to their roots of wealth creation. Perhaps it is the result of the recent economic turbulence. Or perhaps it is simply the fascination the world's wealth creators have to do things differently, bigger or better.

Whatever the motivating factors, a growing number of the world's wealthy families are moving beyond coupon-clipping and are re-assessing the potential of their private capital to have a positive impact on the social and economic challenges they see around them.

This transition to a third stage of family wealth is most evident in the US, but also in pockets around Europe and Asia. It is characterised by the desire of individuals and families to have a clear purpose for their wealth: a sense that wealth only really matters because of what you can do with it.

The lesson from those undergoing this transition is that active participation is more beneficial for the family and for society than a passive approach to investing or giving. They argue the benefits of collaboration with other like-minded families and, above all, of leading by example within their family and community.

Positions of responsibility

At one level, this clarity of purpose has huge benefits for the cohesion of families – especially financial families, where the original common goal of the family business may have gone. For these families, it can be hard to find a common mission that all family members can stand behind. Many recognise that this lack of direction can be very damaging to the sense of self-worth of individuals within a wealthy family, and especially the younger family members.

'Families are rethinking and re-engaging with wealth creation.'

At another level, most wealth holders ascribe to the view that wealth brings with it wider responsibilities. The reasons for this are complex. Many successful individuals feel a strong personal need to give back to the communities and societies that have supported them on their way up.

At the same time, these same individuals have also become the tall poppies in society, whose elevated position opens them up to great public scrutiny. The act of wealth creation may well be valued by society at large in general, but that respect evaporates quickly if individual wealth creators are seen to be using their fortunes irresponsibly.

The knock-on effect of all of these forces is that many families are once again rolling up their sleeves and getting back into the business of creating economic and social value.

Pearls of wisdom from the Americas

Bring social values into your business (generation one)

Personal experience
'Success is about the joy of being able to contribute to society and finding a theme to support that is worthwhile. In my view, active participation in society as a business owner should be about creating a better society.'

Lesson they would pass on
'It is important to distinguish between commercial success and benefit to society. Of course you want to create sustainability, but this is also enhanced by the profit motive. So, in business, we strive to share a mission that everyone can buy into and where they feel their efforts are valued.'

Root your business in society (generation three)

Personal experience
'My parents and grandparents believed in hard work and being part of your community. They gave me my first business to manage when I was 12 years old and throughout my life I have seen how business has the power to transform whole communities.'

Lesson they would pass on
'As a wealth creator, you are the one who knows how to create jobs. Not governments. What better impact can you have than to give someone a job?'

Transfer values (generation six)

Personal experience
'Your core value comes from your ability to work and be useful in society. My wife and I both work and our children can see what that means, every day. We teach our children that they have responsibility for themselves, for other people and for the community. To bring that alive, we have to live it ourselves.'

Lesson they would pass on
'Wealth matters because of what you can do with it.'

Investment with a purpose

For some, this is a purely a financial exercise. They put their capital to work in new business ventures. This may be part of the family's overall investment strategy. However, it is often also seen as a way to teach the next generation the business of business: by allowing them to evaluate and seed enterprises, then support their management and growth.

This use of family capital has several benefits. It helps the family to sustain and grow their wealth. It teaches the next generation the valuable skills of entrepreneurship and leadership. It creates economic wealth. But, above all, it creates a purpose for the wealth that benefits the family and wider society.

Indeed, some wealth owners regard supporting the global financial recovery as a duty. It is therefore their responsibility to be economically active and support the businesses that financial institutions are failing.

In the words of one inheritor: *'Since the financial crisis there has been a rethink. Financial institutions are broken. A lot of people are focusing on how to fix those existing institutions, but families are also rethinking and re-engaging with wealth creation.'*

He explains that the wealth preservation mentality of family wealth owners creates a long-term perspective that he believes could have huge benefits for the wider economy.

'We are starting to realise that the long-term view that families have always had is the right way to build businesses and grow economies. We don't think in terms of quarters or years, we think in terms of five years or fifty years and everything that comes with that view is very healthy for jobs, well-being and economic growth,' he explains.

Others focus on using their family wealth more directly for social good through philanthropic activity. These individuals get involved with good causes often, quite simply, because they can and they want to. However, many also regard giving a portion of their fortune to make a difference in the world as one of the chief responsibilities of wealth ownership.

Often, as one would expect, wealthy philanthropists are thinking big. They don't expect to solve the world's problems, but by bringing some of their influence, access, energy and innovation to the table, they hope to open up new avenues and help to find new answers.

In the process, many approach these challenges through a business perspective: setting goals and measuring outcomes. Indeed, as part of this equation, many consider the benefits that philanthropic activity has on the wider family.

'The most important things are how you make it and how you distribute it. If you can do that in a way that is socially acceptable and keeps your family happy, then you are winning.'

A lasting family legacy

Philanthropic activity provides an outlet for all family members to channel their wealth with purpose. It allows individual family members to do good work that often has deep personal meaning; it allows them to live their values and, importantly, it allows them to share and communicate those values across the generations.

Indeed, once again we find that by using their wealth in ways that benefit both the family and wider society, wealth owners are seeking to create a greater purpose for their fortunes.

Interestingly, in this exploration of the meaning of wealth as a tool for economic and social value, there is also an expanding middle ground, where economic value and social value meet. At one end of this field, philanthropic families are supporting social projects with investments of capital that apply somewhat commercial principles – so called 'social investments'. At the other end of the field, financial families are selecting investments on commercial terms, but with an awareness of the wider social impact of their financial investment – a process that some refer to as 'impact investing'.

In this middle ground, debate is raging about the risks, rewards, benefits and motivations of each strategy. Yet, wealth creators are nothing if not creative and there is a positive sense of the pioneering spirit among those who are active in this field. They, after all, are the ones who can afford to risk a little trial and error in the process of unlocking the true potential of financial wealth.

Whether engaged in philanthropy, venture capital or impact investing, to Abraham Maslow, an early 20th century psychologist, this type of activity would have been all too familiar. Maslow theorised that humans have a hierarchy of needs from basic needs for food, sleep, safety and so on, to far more complex needs for belonging, self-esteem and a sense of achievement. Right at the very top of his pyramid was the need for what he called 'self-actualisation', which describes the realisation of one's full potential.

Wealth advisors often refer to this part of the spectrum of fulfilment as 'legacy', but that belies the depth of personal motivation that often underpins this activity. Wealth creators engage in these activities not because they want to be remembered, but because it makes all of their achievements worthwhile. It is not so much about self, as about society; and it is not so much about success, as it is about being as relevant as possible in the wider world.

'Wealth creators engage in these activities not because they want to be remembered, but because it makes all of their achievements worthwhile.'

In the words of one wealth creator: *'I wouldn't quantify success in terms of wealth. Wealth is like the ring in The Lord of the Rings; it can make you a very ugly person. The most important things are how you make it and how you distribute it. If you can do that in a way that is socially acceptable and keeps your family happy, then you are winning.'*

Leading from behind

While Maslow's hierarchy of needs perhaps provides a framework to explain why the meaning of wealth matters so much to wealth creators, it is more challenging when one thinks in terms of whole families. The process of fulfilling one's true potential will be unique for each individual. So, while the desire of parents to see their children flourish is universal, that desire can turn to anxiety, or even insecurity, when significant wealth is brought into the equation.

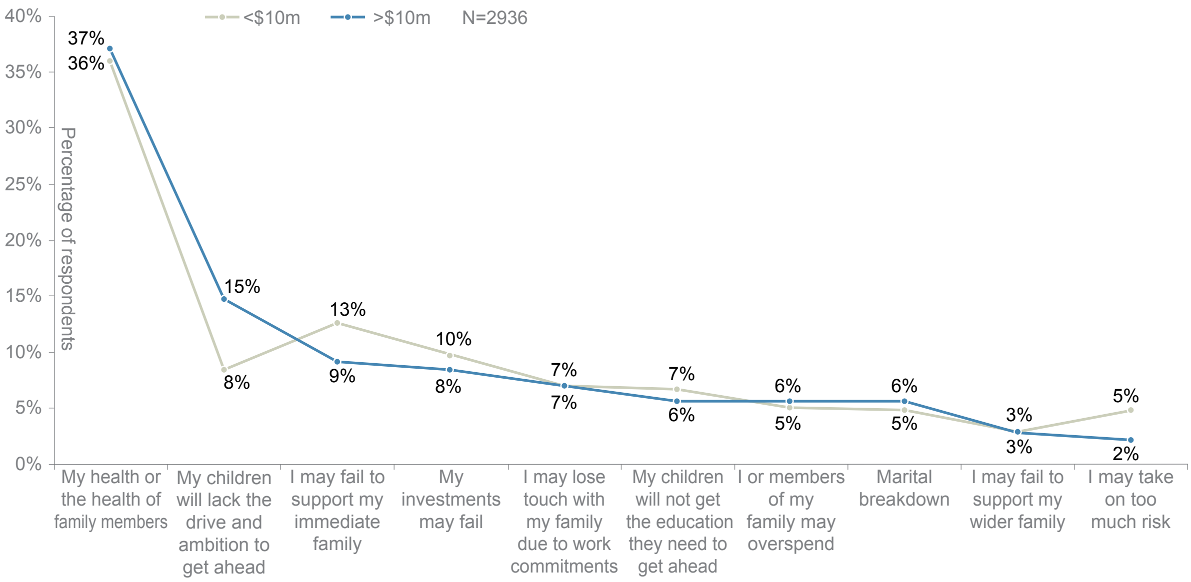
This is perhaps best illustrated in research among almost 3,000 wealthy individuals from around the world who were asked about their greatest fears. The response choices all highlighted concerns that are particularly relevant to affluent individuals. What is striking in the results is that the moderately wealthy – those with less than US$10 million – worry about their own ability to provide. Meanwhile, the very wealthy worry more about the level of ambition in their children (Figure 5).

For parents, the main concern is that great wealth will scotch the individual ambition in their children. Meanwhile, it is perhaps not surprising that children may feel somewhat inadequate in matching up to expectations when you consider the great heights of achievement their parents have scaled.

Interestingly, among the participants there were many different perspectives on this challenge from all generations and, sadly, several families had become estranged over the years. Speaking from bitter experience, some felt this was because they had given their children too much, others because they had given too little.

What is clear is that as with all parenting challenges, there is no simple answer to this problem. Yet every parent in their own way was continuing to try to find a way to support their children – of all ages – to achieve their own full potential.

Figure 5 **What keeps the wealthy awake at night?**
Question: What is your greatest fear regarding your wealth and your family in the future?



The wealth journey

As we have seen throughout this report, there are many strategies being used in this process: from formal education to family councils; from leading by example to leading from behind; from creating opportunities for entrepreneurship to philanthropic activity; and from giving a head start to giving just the bare essentials.

Regardless of the strategy, the lesson that came through most clearly was that each individual, regardless of age, generation or geography, has to be free to find their own way ahead in life.

The role of parents is to support, mentor and facilitate with an open mind and an open heart. The role of children is to find their purpose in life so that their family wealth is channelled with meaning.

In the words of wealth one inheritor in the US: *'It is great to be able to think of yourself as the sixth generation, but it is more important to think of yourself as the first generation. You need to think about what you add to the family and what you add to the legacy.'*

In that process, wealth can be a help or a hindrance. But, if each step is taken with purpose and each layer of the pyramid is climbed with respect for family, friends and society at large, that in itself creates a real sense of fulfilment.

This sentiment was perhaps best captured by a wealth owner in Asia, who identified four simple principles that he applied to his family situation. In his words: *'To bring a whole family along, you need clarity of purpose. You need to live your values, don't intellectualise them. You must correct power imbalances when they occur in the family. And, remember that money does not confer wisdom. You are lucky, not smart and your children must know that they are lucky, not smart.'*

Conclusion and methodology

In conclusion

To sum up, perhaps what is most striking across all the research is the extent to which wealth creators and wealth holders think deeply about the implications of their wealth ownership. They recognise that opportunities of great wealth are matched equally by challenges. As a consequence, they are not only listening and learning from peers so that they can avoid the pitfalls, they are applying best practice and enabling each generation to take their own steps forward, not out of a sense of privilege, but with a sense of real purpose.

Methodology

We would like to thank the 16 individuals who gave up their time to contribute to this research. The subject matter was deeply personal and we can only express our deep gratitude for their candour, honesty and thought-provoking comments.

The interviews took place between December 2013 and March 2014 by telephone and in person. Efforts were made to ensure the participants were drawn from different regions and different generations. The breakdown is shown below.

Figure 6 **Sample breakdown by wealth and region**

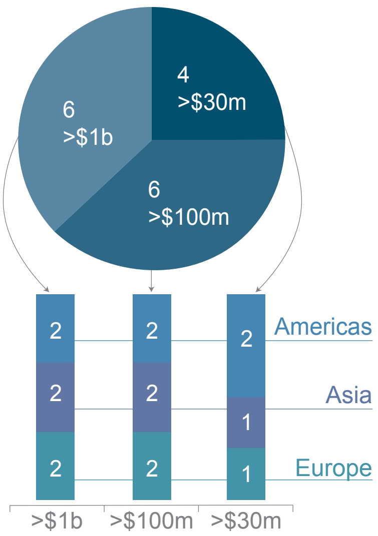
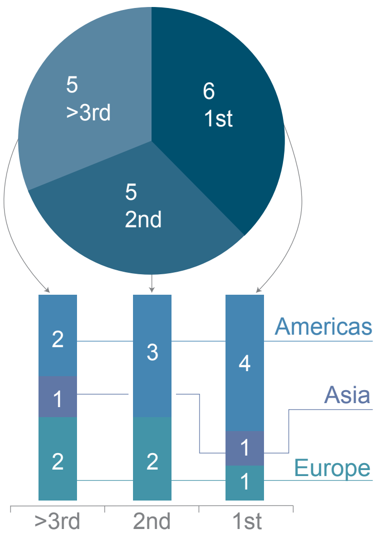


Figure 7 **Sample breakdown by generation and region**



In addition, we would like to thank the more than 4,500 individuals who have contributed to Scorpio Partnership's ongoing digital research into the attitudes and expectations of the world's wealthy. This research has drawn on more than 12 separate studies conducted over the last two years.

The charts shown in this report are the result of one or more of these studies. For clarity, the number of responses for each question is therefore shown next to the chart.

How we can help

For further information please contact

Europe

Sarah Cormack (Partner)	sarah.cormack@withersworldwide.com	+44 (0)20 7597 6165

Asia

Katie Graves (Partner)	katie.graves@withersworldwide.com	+852 3711 1636
Jay Krause (Partner)	jay.krause@withersworldwide.com	+65 6922 3702

The Americas

David Guin (Partner)	david.guin@withersworldwide.com	+ 1 212 848 9870
David A. Stein (Partner)	david.stein@withersworldwide.com	+1 212 848 9832
Justin M. Zamparelli (Partner)	justin.zamparelli@withersworldwide.com	+1 212 848 9812

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