

# Changing Lanes

*Transition planning for entrepreneurs and family businesses*

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with compliments from



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## Prepare for the Bigger Tsunami



### You have sold your business. Now what?

Whether the final hour of the countdown saw you sell your business to an external third party or internally to a family member or key manager, you are to be congratulated for working so diligently through each hour on the clock and enhancing the value of your social, intellectual and physical capital. Be sure to celebrate the achievement of your goal to create choices for how and when you would exit.

But your work is not yet done. In reality, converting your wealth into a more liquid form was just the first step. There are many important decisions to be made and actions still to be taken to protect your wealth and create your legacy.

Protecting and transitioning this more liquid wealth is a major undertaking. Studies have shown that 70% of North American families fail to sustain their wealth across generations. In fact, as the story 'Shirtsleeves to Shirtsleeves' illustrates, wealth that does not have a clearly-defined purpose frequently has a negative impact on families and communities the world over.

Given that the next wealth tsunami is estimated to be three times the fortune that baby boomers expect to inherit, we need to put greater emphasis in preparing not only our children but also our grandchildren to manage the rights and responsibilities that must accompany their inheritance. They need to see that the family wealth has a purpose.

Creating a purpose for your wealth is the first of the **Ten P's of a Successful Wealth Transition** and the focus of this edition of Changing Lanes. 

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## Wealth Without Purpose

In studying the reasons why over 70% of wealth transitions fail, Williams & Preisser discovered that by far the most prevalent (accounting for 60% of the total) is a **lack of trust and communication** between generations. **Not preparing heirs** to manage their inheritance (25%) and **inadequate planning** in general (15%) are also major causes cited.

We believe the common denominator among the above failures is a lack of a clearly-defined and communicated purpose for the wealth. When the meaning, intention and objectives for the wealth are not defined and communicated, it is much less likely that inheritors will understand, appreciate and buy-into the obligations and responsibilities that come with the rights and privileges of wealth. Without this defined purpose, the transfer of wealth is just that – a mere transaction or transfer of title. Therefore, to sustain wealth across generations, it must be **transitioned**, not **transferred**.

### The Negative Impact of a Wealth Transfer

Affluenza is an example of what can happen when wealth is transferred rather than transitioned. Affluenza is described as a harmful or unbalanced relationship with money or the pursuit of money. It is a condition where people suffer from a sense of entitlement or the inability to delay self-gratification. It can manifest itself in a lack of motivation, low self-esteem, and a wide range of addictive or compulsive behaviors.

There are many examples in the media of how Affluenza has caused the destruction of individuals or entire families. At minimum it has been used as an excuse for poor behavior, and at the other extreme cited in the defense of criminal charges.

### The Benefits of a Wealth Transition

A true transition of wealth requires communication, trust and planning. A well-thought-out inter-generational wealth plan is one that aligns the cast of players with the same sense of purpose and stewardship around their wealth. Parents who invest in such a plan prepare their children for wealth by nurturing family traditions, family values and personal development.

For the inheritors, the acquisition of wealth should be the beginning of a lifetime journey of personal discovery and fulfillment through the development of inherent talents and strengths, greater inspiration and empowerment, enhanced family connectedness – and, of course, the use of the family assets in areas such as philanthropy, citizenship and neighborliness.

Read on for some tips on developing a common purpose. 

## Shirtsleeves to Shirtsleeves



**Shirtsleeves to Shirtsleeves in Three Generations** is an all-too-common account of the cycle of wealth creation and its ultimate demise.

The story begins with a generation of hard-working individuals who each built a successful business from the ground up. Their hands-on approach typically saw them with their sleeves rolled up as opposed to conducting business in a suit. As a result of their strong work ethic, these entrepreneurs created a significant wealth base. However, they continued to be frugal and live modestly, with little change to their lifestyle or customs.

Their wealth subsequently passed to the next generation who, as adults, experienced a much easier lifestyle than their parents and invested in “the finer things in life”.

What was left of the wealth ultimately transferred to the third generation who, not knowing any lifestyle outside of having large amounts of money and the freedom to spend, promptly depleted it entirely.

As a result, the fourth generation found themselves rolling up their shirtsleeves and back to working hard to make a living.

This is by no means just a North American phenomenon. Similar analogies such as clogs to clogs, kimono to kimono, rice paddy to rice paddy, camel to camel and stable to stable paint the same picture the world over. 

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## Define the Purpose

The *process* of defining a purpose for your wealth is as important as the end result. A communicative approach pays huge dividends. Not only do families work together to develop a common interest for the family wealth, they learn some very valuable communication and decision-making skills in the process. In sharing their respective philosophies, they learn a lot about each other, which serves to strengthen the overall family connection.

You have likely already developed a Family Charter as a part of your family business governance structure. The guiding principles and values that you documented in this charter form the basis of your philosophy and beliefs, and can be used as a reference point in discussing an overarching purpose for your wealth.

Dr. Thomas Deans' latest book: **Willing Wisdom - 7 Questions Successful Families Ask** is an excellent reference tool for developing an inter-generational wealth plan that begins with clarity of purpose. While the book's ultimate objective is to challenge one and all to either create or update their Will following key discussions with those they hold dear, Tom's thought-provoking questions become a forum for an exchange of ideas about what he describes as the most awkward subject of all – the transfer of your wealth!

**Willing Wisdom** relays the conversation between an estate planning lawyer, a psychotherapist and an inter-generational wealth expert who share their respective insights around how to "will with wisdom". It is the story of how great families

are made to last! In addition to the questions to ask, the book shows you the most effective way to ask them.

### Excerpts from the Seven Questions

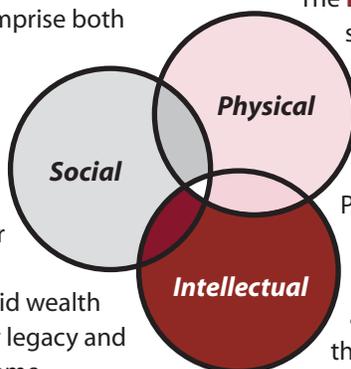
- What word best describes your family? Share a family story that helps explain the word you selected.
- Describe how your parents acquired their wealth. Share a memory about something your parents did to provide for you that left a lasting impression.
- How would an inheritance advance your dreams for yourself, your family, and your community.
- In the context of planning for the division of your assets, does fair mean fair, or does fair mean equal? Who are you planning on leaving your wealth to, and will you share a copy of your Will with them?
- Describe how your parents divided their assets and when you first learned of the contents of their Wills. What would you do the same and what would you do differently?
- Describe the role you play (or played) in the final care of your parents. Can you name one thing that was (or is) being done well, and one thing you could change (or wish you had done differently)?
- Describe in detail your last wishes.

Please call if you would like our assistance in defining the purpose for an inter-generational wealth plan and developing strategies for a positive outcome. To order a copy of **Willing Wisdom** visit [www.WillingWisdom.com](http://www.WillingWisdom.com).

## The Three Types of Wealth

Similar to preparing for a business transition, your impending wealth transition involves the protection and preservation of three groups of assets that comprise both tangible and intangible resources.

The tangible, liquid wealth realized from the sale of your business is represented by the **Physical Capital** circle. This physical capital will also include any personal property and investments. Collectively, these assets are your nest egg that will support your lifestyle and independence through retirement. With a solid wealth management plan, they can also become your legacy and provide financial support for generations to come. Remember, *failure to plan* was cited as the reason for 15% of unsuccessful wealth transfers.



The Social and Intellectual circles reflect the intangible assets that are needed to overcome typical roadblocks and ensure a successful transition of wealth.

The **Intellectual Capital** refers to the leadership, skills and experience required for effective wealth management in both the current and future generations, and captures the need to prepare your heirs well ahead of the actual transition of wealth. Remember, Williams & Preisser attributed the *inadequate preparation of heirs* to 25% of failed wealth transitions.

The preservation of the **Social Capital** is just as critical – it is needed to address the cause of the majority (60%) of failed wealth transitions.

By far the most important task is to ensure you address the *lack of communication and trust* identified by the Williams & Preisser survey respondents.

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## The Ten P's

Below is an overview of the top ten considerations for preserving wealth. A clearly-defined and communicated purpose for your wealth is the foundation of your inter-generational wealth transition plan and the first of these **Ten P's of a Successful Wealth Transition**. The other nine will be further explored in the coming issues of Changing Lanes.

### 1. PURPOSE

Define a purpose for the wealth so that it can connect the family. Ensure all generations have an understanding of the different groups of assets and why each is important.

### 2. PRINCIPLES

Identify and share guiding principles and values. These are the foundation for creating a common interest or "we focus".

### 3. PHILOSOPHY

Clarify what you want to achieve and the family legacy that you want to bestow. Consider how wealth should be deployed going forward. Include your vision for wealth protection & preservation, tax management, reinvestment, financial independence, entrepreneurship etcetera.

### 4. PARTICIPATION

Engage all stakeholders in developing the purpose, principles and philosophy above. Gather different viewpoints to define and promote a "we focus".

### 5. PLACES TO TALK

Establish appropriate forums to enhance communication and build trust. You might begin with a family trust meeting, a wealth management advisory board, and/or a family council.

### 6. POLICIES

Define levels of authority, responsibility, and accountability for wealth management, compensation, wealth distribution or reinvestment, and financial independence.

### 7. PLANS

Create detailed instructions for the communication and implementation of the wealth transition plan and ongoing wealth management. Include estate plans, a continuity plan, a family participation plan, compensation plans, and shareholder or other agreements.

### 8. PROCESSES

Formalize the process to implement the wealth transition plan and groom heirs in wealth management, philanthropy, and/or entrepreneurship. This might ultimately lead to the establishment of a family office.

## The Ten P's of a Successful Wealth Transition



### 9. PHILANTHROPY

Use this medium to test how stakeholders work together and make financial decisions. The goal is to create a sense of collective ownership among next generation beneficiaries and begin the development of talents and strengths around the use of family assets in citizenship and neighborliness.

### 10. PASSION

Develop the sincerity, sense of purpose, stewardship and trust that will enhance connectedness and guide next generation wealth managers. 

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