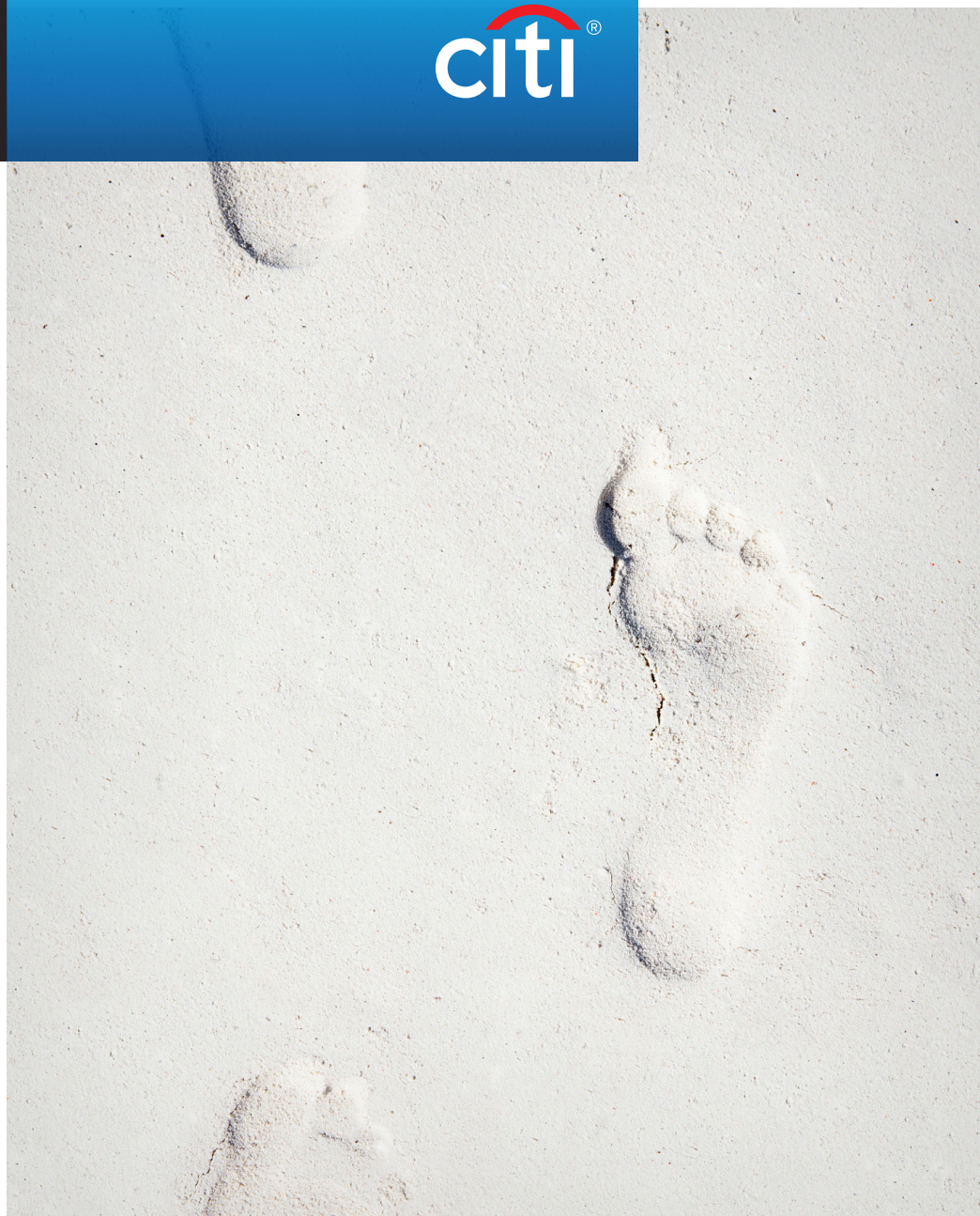


Private Bank



Meeting the challenges and opportunities of family leadership

Citi Private Capital Group

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Introduction

The challenges of effective leadership are not confined to the realms of business and politics. They are also very real for many of today's affluent families. Very few things trouble today's wealth creators as much as the question of how the next generation of family members will assume the mantle of leadership by contributing positively to business, society, culture, or politics.

Similarly, many wealth inheritors - often in their 20s, 30s and 40s - are keenly aware of the obligations of great wealth and the expectation of their families and society that they will lead meaningful and impactful lives. Increasingly, many people of this generation feel the need to help solve fundamental social and economic issues, create new companies, or lead the family business or foundation. Regardless of an individual's priorities, finding a path toward leadership in an affluent family can be highly challenging and requires careful preparation and execution.

While different generations may disagree on how wealth inheritors should act upon their ambitions, there is always agreement on the need for effective leaders. The notion of creating, changing, shaping, or influencing permeates the values of families who have created significant wealth. Many have witnessed first-hand the meaningful impact that one person or family can have upon industry, philanthropy, or the arts. As a result, there is typically a very strong desire for future generations to replicate this impact.

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Family leadership roles

Family leadership roles can be broadly defined by the following four overlapping categories:

Family leader

This role is often played by the family matriarch or patriarch either in a formal capacity – chairperson or chief executive officer (CEO) of the family enterprise – or in an informal capacity. The family leader often leads, influences, or adjudicates in matters impacting the extended family, such as financial and legal issues, and helps settle disputes.

The family leader is often the ‘culture carrier’ who ensures that the family comes together, celebrates achievements, and educates younger generations. He or she will have a forward-looking perspective on the family as a unit, navigating risks, and positioning it for long-term success.

Ideally, the family leader is a role model, exemplifying family values for current and future generations to emulate. He or she will also play a key role in external relationships – in the community, philanthropy, and business – and is regarded as the family’s public face.

While the family leader is often a single individual, some families have several people play leadership roles according to family needs, but also reflecting their individual skills and temperament. For example, one senior family member may oversee family gatherings and educational programs, while another may provide leadership in family financial matters.

Family enterprise leader

This individual – or individuals – manages the strategic and operational matters of the family businesses, family office, family investment company, or family foundation. The enterprise leader often exemplifies elements of technical acumen: business experience combined with exceptional judgment and substantial emotional intelligence. He or she may be the CEO, chairperson, or senior director of the family enterprise or enterprises. The family leader may also act as family enterprise leader, but often capable siblings or cousins fulfill this role.

Emerging family leader

This role combines elements of both the family leader and the enterprise leader, but in a developmental capacity. Emerging leaders are often easily identified either through a formal designation – e.g. CEO of a portfolio company or family foundation board member – or through their age, seniority of birth, or family branch, as well as their ambition, interests, and skills.

Informal family leader

While lacking an official title, this is an influential role in the family system. He or she is not defined by age or position in the family as such, but is recognizable by his or her influence over family matters and also expertise in or experience of certain issues.

An informal family leader is often regularly consulted by family members and feels free to express views contrary to those of the designated family leader. He or she may help to harmonize or disrupt the family system. In large families, informal family leaders may be numerous.

In this paper, we will focus on the developmental aspects of formal, enterprise, and emerging family leaders.

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Opportunity for global leadership

Leadership succession challenges are universal. A survey conducted by the World Economic Forum in 2015¹ revealed that 86% of respondents felt that there was a 'leadership crisis' in the world today. This sentiment was widely shared across the world's main regions with 92% of respondents in North America agreeing, 85% in Europe, 83% in Asia, 84% in Latin America, and 85% in the Middle East, underlining the global nature of this challenge.

Our experience working with over 1,100 family offices around the world provides further anecdotal evidence of the leadership gap. Often, families of meaningful wealth are not prepared to identify, educate, and transfer leadership to next generation wealth inheritors. Unfortunately, being unprepared can lead to the dissipation of family wealth, greater family discord, and the family's role and impact diminishing in the lives of extended family members, as well as in the realms of business, culture, and politics. However, despite the difficulties, many families do successfully transfer leadership and they serve as a model for others.

Most families have the desire to create future leaders. Affluent families' means, visibility, and networks provide a unique vehicle for future wealth inheritors to take advantage. While affluence is no guarantee of success, the opportunities afforded to the next generation leaders offers them a distinct competitive advantage, at the very least. And the potential impact of well-directed efforts by a new generation of family leaders in social, medical, business, technological, or cultural ventures could be highly significant.

¹ Shiza Shahid, "Outlook on the Global Agenda 2015: Lack of Leadership, World Economic Forum", 2015

Effective family leadership development practices

Faced with the challenges and opportunities of leadership, how can families foster strong next generation leadership?

Families that successfully pass on leadership roles to the next generation typically exhibit six specific characteristics or best practices:

- **Acknowledgement** - recognizing the need for the active management of the process of leadership development, role definition, and succession
- **Well-articulated process** - embracing a clear and open policy
- **Emphasis on educational and personal development** - investing in activities to identify and develop future leaders
- **Collaborative paradigms** - acknowledging that family leaders are becoming more collaborative so as to promote involvement, particularly from younger generations
- **Understanding motivations** - understanding the importance of ensuring the next generation are prepared and willing to assume their responsibilities
- **Acknowledging and correcting mistakes** - understanding that not all efforts will be successful, and acting quickly to remedy bad situations

We will now examine each of these six characteristics. It is worth first noting that they are not unique to family offices, and can also be observed in major corporations. However, the ways in which they are applied can be unique to families, and require specific nuance and calibration based upon the extended family's particular circumstances and dynamics.

Acknowledgment

While many families focus their efforts on their current leaders, it is vital that families recognize the need for active management of the development of future leaders. Although it might be assumed that successful and affluent families would automatically do this, that is often not the case. Why? Mortality, deeply held feelings of control, pride, interpersonal dynamics, lack of readiness amongst heirs, and self-perceptions can make this a difficult topic to discuss. Although it is rare for family principals to disavow the importance of leadership succession, they might put little effort and resources in creating a robust process. This results in initiatives that begin far too late in the cycle of leadership succession or even not at all.

Effective family practices begin with a sincere dialogue amongst key family members on the importance of leadership succession. This conversation will often include current generation wealth owners and the next generation of wealth inheritors. Typically, an estate attorney or consultant skilled in this topic mediates the process by which agreement is ultimately reached.

The outcome of this dialogue is often codified in a document that confirms the family's views, key roles, policies, and commitment to leadership development and succession. This document serves as the basis for communicating these views to the extended family and other interested parties. At the heart of this process is the identification and inclusion of key stakeholders, as well as identification of the many constituencies impacted by the outcome.

The process should extend beyond family members to other entities that are owned, subsidized, or endowed by the family. Often, these entities and their employees are keenly aware of a potential leadership vacuum or lack of clarity around succession, which can create collective uncertainty.

Ignoring or putting off this discussion is rarely an effective strategy. Indeed, starting this process early, even when wealth inheritors are early teens is advisable.

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Well-articulated process

Successful families not only acknowledge the need for an effective leadership process, but also embrace a clear and open succession policy.

In terms of a family enterprise leader role, these policies at the very least include the establishment of eligibility expectations, training and development resources, mentoring, compensation policies for family members, and governance - specifically, reporting, decision-making, and hiring and firing practices.

For example, families will set out what is required of potential leaders in terms of education, work experience within or outside the family enterprise, personal conduct, characteristics and values, as well as key measures of success. They should shun nepotism and set high standards for family members or leaders brought in from outside. They should never compromise when filling key leadership roles and not give family members preferential treatment in promotions, compensation, or receiving key roles.

Setting such eligibility expectations and practices makes it clear to all what is expected of current and future family leaders, regardless of age or role. It serves to emphasize the importance of succession in the family and allows many forms of leadership to take shape. Needless to say, this process is not intended to ordain a specific future leader but rather to encourage any number of family members to strive for leadership roles in any number of areas. Over time, family needs, family roles, and individual family member readiness will change, so maintaining flexibility is essential.

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Education and personal development

A vital element of an effective family leadership development process is the identification of key steps and resources available to next generation family members. Ideally, this has a life-long time horizon, as leadership development is a never-ending process.

The very best practices include formal and informal education, along with mentoring. While it is not necessary to identify every aspect of who will carry out these activities, it is important to describe and explain to family members why they matter. An effective approach will include both 'technical' education elements, for example, business, the arts, finance, and social work, as well as 'personal' development, including self-awareness, communication, and problem solving. Arguably, the most effective leaders in any context combine elements of both technical skill and important personal attributes.

Families will often create an age appropriate timeline of personal development resources that may look like this:

- **Teens:** exposure to family seniors who share family stories, family histories, and values. Access to programs designed to cover the basics of money management, philanthropy, and religious, artistic, and cultural endeavors important to the family.
- **Post-college:** mentoring by a senior family member or trusted advisor to the family; exposure to 'next generation' programs that teach the fundamentals of asset management, venture capital, estate matters, and family governance. Development of peer networks that support information sharing. Periodic exposure to key medical, legal, tax, estate, and investment advisors to the family. Selective participation in important meetings to observe the behavior and roles of senior members. Open Q&A sessions with seniors, family meetings, or company meetings. Participation in committees. Occasionally, creation of programs to support specific emotional or medical needs is desirable.
- **Adults 25-40+:** advanced training in management, personal leadership development, governance, and conflict resolution. Exposure to groups and conferences – TED, Young Professionals of the Americas, Davos – that open up new ideas and create peer networks. Continued mentoring, and development of informal advisor networks. Opportunities to work in a variety of family owned enterprises or businesses, philanthropic or cultural endeavors of colleagues or family friends. Leadership roles on family or community committees. Increasing

responsibilities in family enterprises commensurate with need and ability. 360° feedback sessions involving family and business associates. Use of personal coaches and participation in executive education programs.

- **Senior 50-80+:** Similar to adults, with shifting emphasis upon changing role definition within the family system, succession management, creation of new ventures, teaching, and mentoring.

Overall, anticipating from where future leaders will emerge in an extended family and the role they will play is not possible. It is therefore important to remain open-minded and flexible to avoid inherent biases around family branch, age, generation, or gender. Families should cast the net wide, set high expectations, encourage everyone, observe, and provide periodic feedback. Ultimately, one or more strong candidates will emerge in either a family enterprise leader role or family leader role.

Collaborative paradigms

Most present day family matriarchs or patriarchs grew up under a model of autocratic family leadership where the family leader was the sole arbiter of major life decisions, proper behavior, and reward/punishment systems. Contemporary successful family leaders shun autocratic behavior, however, and instead take a collaborative approach to communication, engagement of family members, and decision-making. They are comfortable reaching across generations to invite input and promote collaboration.

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Success in this area is often a matter of both belief and action. There is a need to believe sincerely in the importance of engaging the next generation early and often. Belief then translates into actions such as sponsoring family activities, opportunities to observe key meetings, briefings, incremental responsibility, and requiring well thought out plans.

The power of pattern recognition should not be overlooked. Enabling the next generation's exposure to the thinking and decisions of family leaders can be an effective development tool.

Lastly, young adults and children are more influenced by behavior than words. Family leaders should avoid pronouncements that are at odds with their actions as it will only serve to create confusion.

Understand motivations

In spite of best efforts to cultivate young adults for potential leadership roles in family enterprises, not everyone actually wants to lead or even be involved in family endeavors. This is particularly true for multi-generational enterprises despite often intense pressures to emulate the success of past family members.

A recent survey conducted by Citi Private Bank showed that 50% of respondents from 19 countries did not wish to be a part of the family business.² This is a remarkable but not entirely surprising response. Arguably, such resistance to joining the family enterprise has been an age-old phenomenon, with the only difference being that today's young adults feel a greater freedom to pursue their own interests.

Nevertheless, a best practice amongst families that successfully navigate these waters is to embrace open communication, to make no assumptions, and to encourage a range of options while making family needs clear. Ultimately, there needs to be acceptance that decisions are not made for the whole of life. Family members will frequently enter or exit the business after having pursued other vocations or passions.

Acknowledge and correct mistakes

As with anything else in life, there will be failures in leadership succession, in either the developmental or formal leadership role stage. Failures can occur due to many factors, but an effective family leadership process should anticipate these and prepare accordingly.

Best practices here include setting formal role and performance guidelines, giving candid feedback periodically, having remediation plans, and making swift changes in roles and responsibilities when necessary.

Having a governing board for legal entities or a family counsel may make this process more or less difficult, depending upon family dynamics. Similarly, adding outside directors may bring greater objectivity.

² Citi Private Bank, "Empowering Leaders Program", 2017.

Shaping well balanced leadership

Effective family leaders, not unlike successful business or political leaders, tend to exhibit a good balance between solid judgment, breadth and depth of life experience, and strong emotional intelligence. However, leadership development plans often overlook the need to promote emotional intelligence, as measured by emotional quotient (EQ).

Emotional intelligence is most often viewed³ as a core set of personal characteristics such as empathy for others, self-awareness, and self-control. Some have posited that EQ may be a more important factor than IQ when understanding successful leaders. Most promising, EQ can be enhanced while IQ cannot.⁴

Regardless of how the boundaries of emotional intelligence are defined, the need to take account of emotional intelligence in family leadership development is essential. Exposing future leaders to the fundamental tenets of emotional intelligence creates personal awareness, the opportunity to assess gaps, and the chance to fill those gaps through education, experience, self-awareness, and coaching.



Conclusion

In summary, family leadership and succession need not be a hit-or-miss process resulting only either in great success or failure. Understanding and defining family leadership roles and creating processes and practices based upon solid principles will increase the likelihood of success. These should include not only training and mentoring, but also the development of emotional intelligence, which has been demonstrated to be a key determinant of successful leadership, in families and beyond.

³ Daniel Goleman, "What Makes a Great Leader", Harvard Business Review, 1996; and Warren Bennis & Robert Thomas, "Crucibles of Leadership", Harvard Business Review, 2002

⁴ Martyn Neman Ph.D., "Emotional Capitalists", 2014

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