

NEW WAYS TO HARMONISE THE FAMILY AND ITS WEALTH

*The Adapted Parallel
Planning Process model
harmonises the apparently
irreconcilable requirements
of members of
a wealthy family
and the family business*

By Ariel Sergio Goekmen

Everyone is familiar with the famous saying “shirtsleeves to shirtsleeves in three generations” and related stories such as Thomas Mann’s the “Buddenbrooks”. The plot follows a scenario that is often witnessed by the advisors of wealthy families. The first generation creates the wealth, the second, and perhaps third, keeps it level, but the fourth becomes disinterested in business affairs and either squanders away the fortune because of a desire to acquire luxury goods and lead a luxurious life, or because they go into a line of business, such as becoming an artist, which is not conducive to maintaining high levels of wealth because of the tendency to fund below-average yielding business ventures.

The everlasting question is how to unify the need to preserve the wealth while at the same time looking after the demands of the family, especially as the family expands from one member (the founder) into a large number of descendants, from generation to generation, and the wealth remains the same or decreases, should no new business ideas succeed.

The Parallel Planning Process

In the academic business world, the work of Professors Carlock and Ward has been causing advisors to think about family businesses and family needs in a different way. They recently published a model, called the Parallel Planning Process, which they use to harmonise the requirements of the family and the business that at first glance look irreconcilable.

For example, the family may have arrived at the place where none of the heirs wish to enter the family business. Perhaps these heirs wish to purchase a lavish family home or to finance their own business such as the production and promotion of paintings by the eldest

grandson. In this example we have, say, a fully-fledged and functioning family business, generating profits in the retail area or in real estate. The business requires that profits are retained at company level to be reinvested and it might require that someone responsible makes adequate and wise business decisions to continue the path of growth. These potentially diametrical interests need to be harmonised. These decisions become more and more complicated the more generations sit at the table.

Adapting the Parallel Planning Process to the wealthy family

Taking the concept of the Parallel Planning Process and adapting it to the wealthy family, who may or may not still have a family business at the heart of its wealth, but do enjoy additional assets distributed in various jurisdictions, such as real estate, art collections, horse stables, yachts, etc., the question of who gets what and when becomes even more acute. Why, for instance, is the eldest son allowed to travel with the family Learjet, while the daughter merely receives a small allowance per month?

*“The Parallel Planning Process
model aims to preserve
the wealth of a family
while at the same time
looking after their
individual demands”*

These issues and others need to be discussed openly and the family has to agree on a strategy in order to preserve their wealth; otherwise they might end up, just like the Buddenbrooks, with nothing at all. In order to harmonise families and their wealth they need a

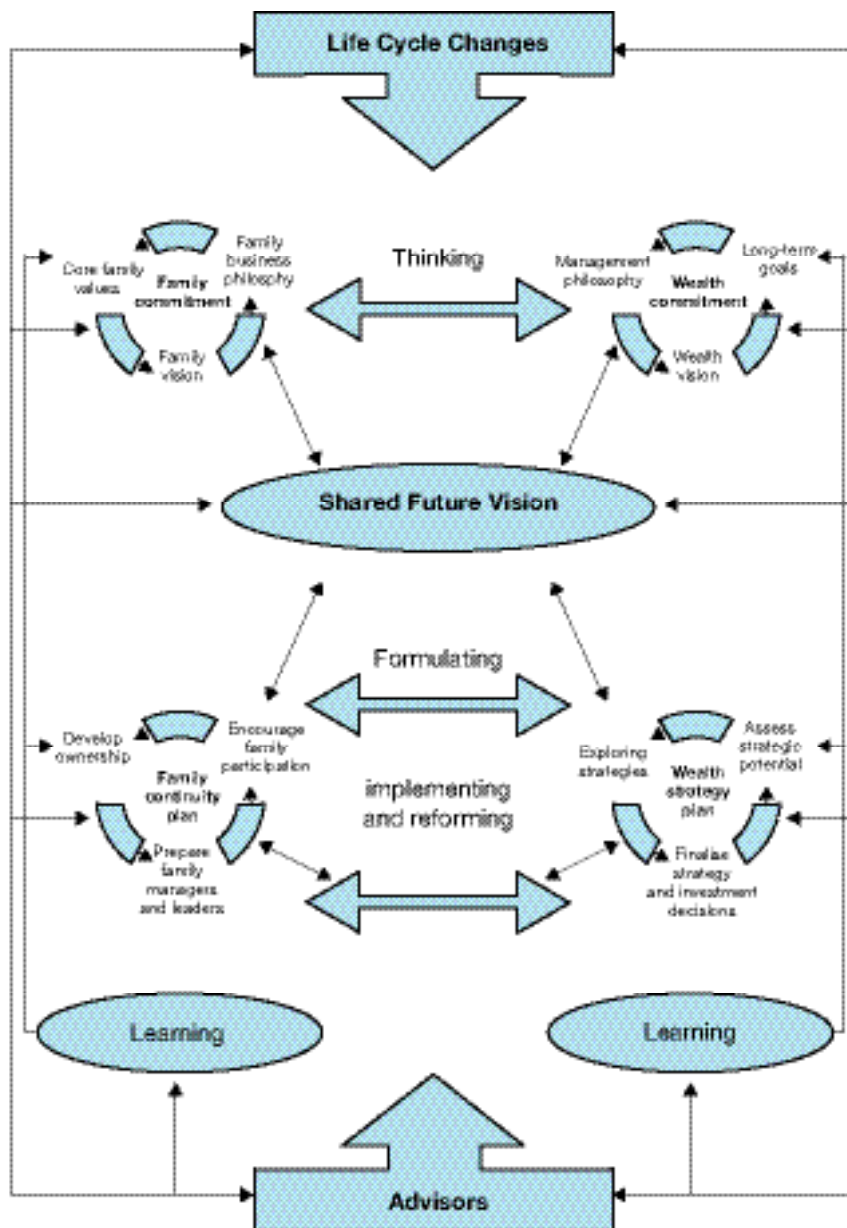


Figure 1: Adapted Parallel Planning Model based on the model by Carlock and Ward (2001). Copyright © Ariel Sergio Goekmen 2005

shared future vision, a fact that lies at the heart of the parallel planning process. If all members of the families can agree on where they want to go, everything falls into place.

In order to achieve this, and it is best done with an independent advisor, the family has to be gathered around a table and has to be walked through each of the circular components of the diagram shown in Figure 1. Each circle comprises

a step in the planning process. And each step is carried out in parallel with the other steps, hence the name of the process. In Figure 1, the first horizontal, the one that starts with “Family Commitment”, reflects the present time, and the second horizontal is the future. On the y axis, or vertically, we have first the family concerns and then, to the right, the issues concerning their wealth. Between the different circular systems we

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have the processes of thinking, formulating, implementing, (checking) and reformulating.

From the North, we have the influence of life cycle changes, such as the birth of a new heir/grandson, marriage, divorce, death. From the South, we have the influence of advisors who can also be trusted family friends (these can tilt the balance a great deal, depending on their influence). Before this we have the area of learning, which indicates the family learning at both levels, the level of wealth as well as the family, as time goes by.

*“Families need a
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In a recent study it has been demonstrated that by admitting families to the adapted Parallel Planning Process insights into their views are revealed that eventually lead to a common mutual vision of the future. To get there, numerous meetings and interactions between the family and the independent advisor have to take place.

The family has to speak up and be prepared to discuss issues that were either unresolved or just not spoken about in the past. These have to be cleared before the process can move forward. It all starts with the first circle in Figure 1, family commitment.

Whether written down or not, each family already has its values, philosophy, perhaps even a vision. To unearth these hidden treasures, mostly handed down in the early days of education by the forebears, usually requires an independent advisor.

Once these values and even the vision are agreed upon, the next step is to scrutinise the business environment and the prevailing attitude today:

- What are the long-term goals?
- How are they connected to the family philosophy?
- What is the vision for the business, particularly if the family no longer run the business themselves but have employed a CEO?

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The next steps deal with the future:

- educating future generations;
- passing on family values to the next generation so that they no longer squander but enhance family wealth when they get their hands on it;
- asking who will take over as head of the family when the present paterfamilias dies?

Finally, the last circular system looks into the future on the business side:

- What are the options?
- What are possible strategies?
- What is the potential?

For this planning process to work, all four circular systems have to lock into a single, shared future vision.

This adapted process of helping wealthy families to remain wealthy by assisting them independently to become aware of who they are, what they are and where they are going has shown promising results in field research.

No family is exactly alike, and considering the multitude of attitudes ranging from Middle Eastern Sharia law to Western European Roman law to English common law – there are many variables, and there is no one ideal way to arrange affairs. In the end it is all up to the family and its advisor. ♦