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Ten precepts of Family Succession Planning (FSP) and the role of education.

Introduction

The orderly (?) succession of Lachlan Murdoch of his father Rupert, raised all the old stories of the challenges involved when money, family, blood and sex ,and in that order, are involved. In my several decades in the financial and corporate markets I was privileged to be involved both professionally and personally with this fascinating aspect of human interrelationship.

FSP is a process and not an event. As a process it has stages, and here is the rub. As Jean Luc Godard, the French film director said “ “Films have a beginning, a middle and an end, but not necessarily in that order” Getting the stages in a rational order is very important.

These ten items are not prescription precepts, far from it.They are simply aspects of FSP that can be present in cases, either deliberately engineered, stumbled on by chance or their absence explained by ignorance or wishful thinking. Their individual importance is a matter of subjective evaluation, but absence of some of them from FSP can be detrimental

For your predilection, and perhaps entertainment, herein my 10 takeaways from my lengthy experience in designing, implementing and observing FSP. The actual tactical and technical design of trusts, wills etc. forming an integral part of FPS is here left to the experts.

ONE : Plan early

Age matters. A FSP involving a 60-year-old son taking over from a 90-year-old father will not involve the same, if any of FSP, involving a teenager with middle aged parents. Crudely put, it is never too early and never too late to plan, but the earlier the better, in term of time flexibility.

This does not mean drilling at an early age into children their responsibilities, as this nearly always leads to the opposite, with the children disliking the family business other than the money it produces. But it does involve early careful nurturing of their primary, secondary and tertiary education and an environment that ensures that, if they do not want to get involved with the family business, they can.Not surprisingly most of what follows pertains to the preparation of young adults, but it can equally apply, suitably modified, to virtually any age. Learning is a lifelong process. Drilling this early, is a very important element of intellectual survival.

TWO : Girls

A lot of attention must be paid to human capital, meaning that “half” of the human capital in any family with boys and girls is the **girls**, 50.0% of humanity. In any case they must be given the same chances and space to develop in terms of succession as that given to the boys. It is absolutely amazing how much this simple rule is forgotten or avoided thus wasting 50.0% of what is available to families to succeed successfully.

THREE: Education

Here I declare interest. I was for 22 years professor and head of finance and economics sections and/or departments in universities in UK and Hong Kong. I am biased towards university education where talent and predisposition can make it possible. So, I come straight to University education as the benefits of good primary etc. education to FSP are too obvious to repeat !

A university education inculcates a certain characteristic involving, partially, technical knowledge, intellectual curiosity and intellectual competitiveness. And, yes, we all know fabulously successful multimillionaires who did not go to, or did not graduate from university. However, absence of university education in FSP can be a more of an important factor than its presence.

FOUR: Mentoring and broad bespoke education/training

The role of education in FSP is self-evident and may not require too much thought or justification. However **educational mentoring** in FPS is a very specific type of educational training aiming to teach how to search for information on any topic, know how and where to find it, and how to use it both intellectually and practically. The usefulness of this training rests just in that : **a skill relating to sources and uses of information** , something which is not normally taught at schools or universities. Objections that this type of educational training will be substituted by AI completely misses the point that to use effectively AI requires trained intelligence ! The training should be completely bespoke to suit the age interests and talents of the young adult.

The best way to start this aspect of education, which should be general enough to make it interesting but focused enough to make it also practical, is to teach young adults (and even older !) **how to read a newspaper** . First a good local newspaper, and then move on to the Financial Times and the Wall Street Journal. and ,possibly, later on The Economist. This **guided and selective reading** will introduce politics, economics, finance, accounting and culture and will prepare for later, as applicable, on how to read and use a Bloomberg Screen. All these are educational skills to make the FS smoother in the transition. Post Covid environment and technology has made this type of training ideally suited to the digital media and information including digital newspaper and, of course ,the ubiquitous Zoom, Teams, Skype etc.

FIVE: Training on the ground

The initial stage of actually joining the family firm should involve getting to know the specific of the family company and business from the ground up and not starting by attending board meetings. I am a great believer in what W.Buffett supposedly said, that he would not buy into a company that he did not understand how it made its products. Some of the better and carefully planned introductions of the family firm consist of guided visits by the managers of sections, even if that means visits to boring offices rather than exciting noisy plants. As necessary, this should also include visits to all the countries where there are offices, plants or shops belonging to the family.

SIX : Timing

Steps 3 to 5 do not necessarily assume that the child/children/young adults in question have an interest in succeeding in the family business. These steps may cultivate their interest and if, as it is quite common, steers their interest to a different direction, then it is money well spent in helping them to choose a useful and fulfilling life but away from the family business.

SEVEN: Transition

This starts right after university graduation, or end of formal education as applicable, and will depend on the interests and talents of the person involved. Having already gained some exposure from Five above, starting to work in the family business should involve not less than 3 months stays in all the major and minor sections, doing actual work rather than internships and for real, commensurate pay. The only "luxury" will be access to the key decision makers in the family business via regular reports and for guidance and questions.

EIGHT: Sibling and parental rivalry

This is extremely common and, if directed and used constructively, can be very productive for all involved. For the siblings not interested to succeed, use could be made of the setting up of trusts to mature at appropriate timings such as graduation, marriage etc. but not including any voting rights in order to avoid later changes of mind and the means to enforce them. This should ensure that the family members get to enjoy the fruits , but do not get involved if they do not wish to do so, in the cultivation of the farm.

However, the most important aspect of sibling rivalry is between the head of the family being succeeded and the successor. Unfortunately, there are no specific technical solutions to the very common case of the father/mother refusing to let go or letting go in such a manner that the son/daughter has no effective say on the way the company is managed. The literature on the topic is full of platitudes and exhortation to common sense etc. If the head wishes to let go, he/she will, if not, he/she will either not let go and face the consequences of absence of effective succession, or will be forced to do so, one of the worse consequences of absence of FSP. It would follow that a well designed and implemented FSP may, just, avoid these conflicts through education which should include detailed family histories and consequences of internal feuding over succession and the opportunities that this feuding opens up to scheming hedge funds.

NINE: Sex

This takes the form of the necessity of marrying outside the family as incest is unwise, culturally abhorrent and illegal in most countries !

"Foreigners" entering the family have been, traditionally, the wedges added to the existing rivalries up to the point where complete outsiders took over the family business and ejected the incumbents. This issue cannot be avoided but ameliorated by trust structures which may limit the voting rights of outside inheritors against those of the original family.

TEN: Advice from Mike Tyson

The German Field Marshal Moltke the Elder indicated (paraphrase) that "No plan survives the first contact with the enemy" Ditto Churchill: "Plans are of little importance but planning is essential". All this was summarized brilliantly by the boxer Mike Tyson "Everyone has a plan until they get punched in the mouth".

Not all of the above 9 precepts will be found in any past, present or future FSP for the simple reason that these are not mechanical rules but stages in a process. They involve human interaction under the most extreme of circumstances, other than imminent death, the circumstances being: "Family meets Money " (quotation attributed by A.Freris to A.Freris). However the more of these precepts appearing in FSP especially No. 1 the better for FSP.