Circular Economy Principles for Family Business and Wealth Stewardship

A New Governance and Sustainability Framework

PHILIP MARCOVICI, KENNETH T GOH
AND IRAJ ISPAHANI

STEP
ADVISING FAMILIES ACROSS GENERATIONS

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ILLUSTRATIONS BY EMMA NESSET

To the families that can change the world

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Introduction

It is encouraging to see an increasing number of wealth- and business-owning families embracing sustainability as a growing area of focus. But much of the dialogue on sustainability relates to areas *external* to the family and the governance of family and business interests. Climate change and other environmental issues, the need and benefit of considering the social and economic interests of all stakeholders in decision making and much more come into conversations and actions around sustainability. But not enough thought is being given by families and their advisors to the sustainability of the family itself, both as a family and in relation to the family's wealth and business interests.

Applying circular economy principles to family business and wealth stewardship can provide a new approach to governance frameworks for wealth- and business-owning families. Circularity, in broad terms, means both avoiding and finding value in waste – not only of natural resources, but also of the human resources within families, including family members not directly involved in the family business, but who have a stake in the future and who need to support those in more active roles. Such family members highlight the kind of paradoxes families face – should a family member be channelled into working in the family business or allowed (and encouraged) to pursue their own careers, reflecting their personal interests and aspirations?

The answer may not be 'either/or'; perhaps a 'both/and' option can be a solution. Family members can be supported on the path to self-actualisation. They can be excited about supporting and taking advantage of the opportunities the family business offers, and can contribute their personal knowledge, skills and experience to enable the business to expand into new areas.

Wealth- and business-owning families are aware of an increased focus in society on responsible and regenerative capitalism[1] and throughout the COVID-19 pandemic the private sector has played its part – often below the radar – in supporting local communities and beyond. Families must in parallel address *internal* issues that can become greater derailers than the challenges of the external environment. Families must ensure that they themselves are sustainable.

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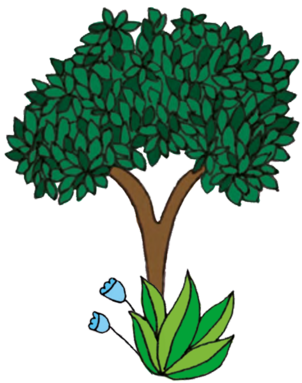
[1] See: https://capitalinstitute.org/#regenerativecapitalism/

Family and business continuity is an inadequate goal for an ambitious wealth- and business-owning family. Families can enjoy the possibility of *more* than just continuity – they can regenerate and benefit from igniting new generations of family stewards and entrepreneurs to not only steward and continue but also to build and contribute.

Embedding circular economy principles into the family system often involves confronting opposing or contradictory logics. Paradox thinking allows participants to see bridges between these opposing logics through the emergence of unimagined possibilities, allowing circular principles to be incorporated into the family system. Self-actualisation is one area that could allow for paradox thinking. Can a family get fully behind preparing a talented member of the younger generation for a career that appears to have nothing to do with the family business? Or should the family come up with rewards for those family members who comply with encouragement to live in certain geographies and take on certain roles instead? The paradox of the individual's ambitions versus what the family thinks it needs may well be an opportunity that has been misinterpreted.

Families do not need to fear that self-actualisation for each and every family member will compromise collective interests. Quite the opposite may occur if the hidden opportunities afforded by paradoxes are taken advantage of.

This book is written in two parts. After an overview of the principles in the first part, the second part provides examples and some practical guidance on how the principles of circularity can be applied in the context of family business and wealth governance. The authors have put their thoughts in writing with a view to encouraging both wealth- and business-owning families and their advisors to consider how a circular approach can help inform and enhance family governance structures and decision making. Circularity is multi-faceted and embracing, and can also be beneficial for family wellbeing and a family's social and spiritual capital.



Part One

The opportunities afforded by a circular approach to family business and wealth stewardship

During lockdowns around the world, thoughtful and innovative intergenerational families have reflected on their wider purpose. But there is all too often more that can be done in the face of the stark inequalities that the pandemic highlighted in their particular communities, countries or regions. Sustainable practices and addressing climate change have understandably risen on the personal and corporate agenda. We must now use our knowledge and tools to build a circular economy, one that is fit for the post-pandemic 21st century, and our thinking and behaviours must adapt to this new operating environment.

Family businesses and wealth owners must contend with manifold challenges today, including increased government interventionism, geopolitical risk, business disruption, technology-driven change, international conflicts and the climate crisis. The pandemic has also underscored the need for all businesses to apply more sustainable business practices and a few forward-looking family businesses are already embracing the principles of circular economy, at least within their business operations as opposed to in relation to internal family governance and ownership structures.

Circularity means avoiding waste – not just of natural resources but also of the human resources within families, including family members who are not directly involved in the family business, but who have a stake in the future and who need to support those in more active roles.

Wealth- and business-owning families are aware of an increased focus in society on responsible and regenerative *stakeholder* capitalism[2] and throughout the pandemic the private sector has played its part – often below the radar – in supporting local communities and beyond. Families must in parallel address internal issues that can become greater derailers than the challenges of the external environment. Families must ensure that they themselves are sustainable. Family continuity can be undermined without adequate preparation for asset protection and succession, and to be sustainable and ensure continuity, the family should embrace circularity principles.

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[2] See https://www.linkedin.com/feed/hashtag/?keywords=regenerativecapitalism

It is clear that the vision of the circular economy as an ideal end-state immediately brings to light the important role of wealth- and business-owning families to achieve this through their stewardship of family assets and their ability to make long-term decisions and commitments. Circularity principles, as defined by the Ellen MacArthur Foundation[3] are: eliminating waste and pollution; ensuring products and materials are kept in constant circulation; and regenerating nature. The authors believe that through the application of circularity principles to the assets and investments owned by families *and* by the application of these same principles to the families themselves, we can help realise the vision of a circular economy – and one that works for all.

The rising next generation should be encouraged to listen, learn and act as needed. To make the choices that are right for them. To take responsibility for their futures by engaging with their families' expectations. The rising next generations are the future of families and of our world. They should be better understood and supported so that family human capital is not taken for granted, wasted or overlooked. This, in our experience, happens too often and with the proper interventions can be avoided.

It is critical to have dialogue within families. The encouragement of the next generation to listen, learn and act does not mean that there is no need for lifetime listening, learning and action by *all* generations in the family. Learning within the family is a mutual undertaking.

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[3] See: https://ellenmacarthurfoundation.org/topics/circular-economy-introduction/overview

It is also important to develop clear roles for 'family elders', whose experience can help in mentoring the younger generations. Families define themselves in different ways, some narrowly driven perhaps by the family constitution and some much more broadly. Circularity encourages inclusion and optimal deployment of all family members, irrespective of whether or not there is a family business. One of the main objectives of a circular approach is not only to ensure that there is no waste (meaning that a family elder and their experience are channelled into effective roles) but also that the family and its business and wealth interests truly *regenerate* as a result of the strength and resilience that the combination of a more effective younger and older generation can provide. This allows families to focus on their business and wealth creation alongside maximising their impact on communities and society.

CREATING A HIGH-FUNCTIONING FAMILY

Not all high-functioning families are the same. For some, the family is defined by the person who created the fortune and all subsequent generations are included, regardless of their involvement in the business. For others, only those who have a financial stake in the family business are included, perhaps extended to their heirs and possibly a further generation. Clear tensions arise when the family grows and dilution of wealth occurs. Sharing a name, blood and heritage becomes more difficult to coalesce. How a family is defined is critical to how the family operates, and aligned with this are the values that the family espouses and adheres to.

A circular approach can apply in all cases to maximise the human capital component of the family and its wellbeing. Simply put, unless a family is itself sustainable it will not be able to fulfil its potential as a force for good over generations. A family that is able to achieve true sustainability for itself will be in the best position to contribute to the communities to which the family and its businesses and investments are oriented and to the world at large.

SUSTAINABILITY AND HIGH-FUNCTIONING FAMILIES

But what does sustainability mean in the context of a family itself? And how can a focus on circular economy principles help families navigate an increasingly challenging world of evolving political, legal, tax and other risks that can compromise the ability of families to protect their assets against both internal and external challenges? And how does the celebration of paradoxes help families to use circular economy principles to inform decision making?

It often appears that there are only two choices – 'either/or' – meaning that one of the choices will by necessity mean foregoing some form of opportunity. Can both available choices be made at the same time and in a way that reflects true sustainability? Are families particularly well-suited to celebrating paradoxes and enjoying the benefits of a 'both/and' decision-making process, providing yet another advantage family businesses can benefit from?

This book, a starting point for the authors in their development of the concepts involved, introduces a framework that can help families look beyond traditional forms of sustainability and apply circular economy principles to preserve wealth, assets and resources. Families that can achieve this are best placed to contribute to their businesses, communities and society at large. We encourage families to look inwards, at themselves. It is both an inside-out review and an outside-in review – both are needed. This is similar to the concept of 'double materiality'.[4] Families need to look at the impact the changing context will have on the sustainability of the family and at the same time evaluate the impact the family, in its investment and other decisions, will have on the changing context.

[4] See: https://www.bsr.org/en/our-insights/blog-view/why-companies-should-assess-double-materiality

SELF-REGENERATIVE FAMILIES AND FAMILY BUSINESSES

Wealth- and business-owning families are uniquely placed to contribute to a better world. First, they are able to take a long view, putting them in a strong position to take action in complex areas in a way that can have real impact. A family business, for example, transitions through multiple political regimes. But unless the family and its own wealth and business interests are sustainable and regenerative, the longer-term ability of the family to contribute to society is at risk.

Second, a family business puts risk and control in broadly the same hands. Decision making has the potential to be safer and more reflective of the interests of a broader group of stakeholders. Stability in leadership, authenticity and safety can all result.

Third, the opportunity is there for wealth- and business-owning families to enlist the ingenuity of the next generation to achieve things the older generation may not have even been able to dream of, and in ways that reflect lower costs given the ability of the family to support investment. Unleashing this is a key part of a family being able to succeed beyond all expectations.

Many wealth- and business-owning families have sustainability on the agenda. Discussions are held about the focus of the family on stewardship versus ownership, the thought being that the family business or wealth will be stewarded by current generations for the benefit of further generations of the family. This is a true value proposition for it leads to a focus on the 'we' over the 'I'. But how many families undertake regular holistic continuity audits designed to review how family assets are owned, with a view to ensuring that continuity on all fronts can be achieved notwithstanding ongoing change in both the internal and external environment affecting the family? Families need to consider the importance of ensuring economic independence of family members, something that can be achieved in a number of ways, with a view to helping family members develop the confidence to truly take a long-term view and focus on what is best for the 'we' – the family as a whole and the wider circles of employees, community, society and beyond. Asking the right 'what-ifs' on a regular basis is key, as is taking action to address areas of internal and external risk that could compromise the longer-term objectives of the family.

Looking at the three core principles of circularity, we can begin to see how these can be translated to the family level.

1. *Eliminate waste and pollution.* In broad terms, waste and pollution are created by design flaws – it is not inevitable that waste and pollution have to be consequences of production. For families, the key is to focus on how the design of family governance structures, education and mentorship and more can address, upfront and transparently, the 'waste and pollution' of the family unit and of the resources of the family. This includes non-family resources such as advisors and employees who may be a critical part of the family's 'plan B' if non-family support is needed at a variety of junctures.

2. *Circulate products and materials.* Keeping things in circulation for longer periods is key to circularity. In the context of the family, this brings to light the importance of developing meaningful roles for all family and non-family members (i.e. trusted advisors, employees, family friends and otherwise). Stewardship of assets versus ownership of assets is a key element of internal circularity.

3. *Regenerate nature.* Regeneration is about restoring balance and equilibrium. Equilibrium in the family can mean ensuring equal input: adequate voice from all generations including the next generation and family elders.

CREATING ALIGNMENT BETWEEN THE 'I' AND THE 'WE'

How does one create alignment between the 'I' and the 'we'? There is often tension between the personal agenda and the family agenda. It can be a significant issue for rising next-generation members who wish to pursue causes or hold beliefs that are not consistent with those of their families or family foundations, which often provide the funding.

To optimise family functioning, there has to be accommodation of the 'I' and the 'we' if families are to co-exist happily and flourish. Why should individuals in a family simply subscribe to collective responsibility because it is expected? Individuation is to be expected and respected as a source of identity. As Jay Hughes observes: 'The whole family's intention being to enhance that individual's process of individuation of happiness – toward the whole family flourishing.'[5] This definition of the common interest is vital and it being embedded during one's childhood, adolescence and early adulthood is fundamental. What the common interest is will vary from family to family; but each family must manage its own context by asking two simple questions: 'Where did we come from?' and 'Where do we want to go?' As Alex Haley, the author of *Roots*, said: 'In every conceivable manner, the family is link to our past, bridge to our future.'[6]

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[5] James E Hughes, Susan E Massenzio and Keith Whitaker, *The Voice of the Rising Generation: Family Wealth and Wisdom* (Bloomberg/John Wiley, 2014)

[6] Alex Haley, *Roots* (Vintage Books, 1994). Quote sourced from https://www.goodreads.com/quotes/search?utf8=%E2%9C%93&q=In+every+conceivable+manner%2C+the+-family+is+link+to+our+past%2C+bridge+to+our+future&commit=Search

Alignment of the ‘I’ and the ‘we’ can be relatively simple to achieve, and requires recognition that the ‘I’ cannot be neglected – strong, confident and diverse family members can and do contribute more than family members constrained into a focus on only the ‘we’. Related to this is to recognise the risk of the family developing what is, in essence, a fake ‘we’. Is the family’s vision genuine and reflective of both what the family has achieved and where it hopes to go? It is often important for families to realistically evaluate what they really stand for and whether individual family members are aligned in understanding and championing what the ‘we’ really is.

Incentive mechanisms come into the picture here, as do conflict-resolution procedures. In both areas the right approaches can support the alignment of the ‘I’ and the ‘we’. How are the rules set, what is done to get ‘buy-in’ and more needs to be considered, and the role of ownership and governance structures, such as trusts and shareholder agreements, need to be carefully drafted to provide the alignment needed.

ALTHOUGH VALUABLE, INDIVIDUALISM CAN THREATEN FAMILY UNITY

At what point does the insistence on individualism threaten family unity? For example, if there is a family business, to achieve cohesion, everyone involved needs an understanding of the values that underpin the family business. Sometimes these values have to be updated and redefined so that successive generations feel their relevance, or are at least reminded of them. You can base your strategic decisions on these values and use them to encourage the right behaviours. The grandparents' and parents' generations and their advisors must try to ensure that everyone is singing from the same hymn sheet. Embedding circular thinking in a family's mindset and *modus operandi* will encourage this cohesion. And, more simply put, not having to choose between the individual and the family as a whole but, rather, choosing both, provides a refreshing approach to unity – a celebration of the individual *and* of the group.

Values may evolve and change: not so long ago, the world was very patriarchal and hierarchical; but today we have a flatter, more democratic structure that allows and encourages more questioning. This, of course, is more the case in some cultures than in others. The younger generations are not as easily accepting of the approach of previous generations and may not buy into any planned transitions within a family enterprise. If they are not listened to and their needs are not accommodated appropriately, they may vote with their feet and become detached from the family. Families that are clearer on their values, and whose governance frameworks embed and endorse these values together with true respect for the evolving values of the younger generation, will be more successful in holding their family and business together.

It is also important to note that families do not need to agree on everything. What is critically important is for all to have a sense that their voices will be heard and respected, and that there are processes to take all views into account. And once a decision is made, the ideal is that the family as a whole agrees that, whatever the decision made, all will back the decision and work towards making the decision the right one for the family.

TIME TO RETHINK FAMILY CONSTITUTIONS AND RELATED GOVERNANCE APPROACHES

Disruption is likely to increase through geopolitical instability and technological advances. Family legacies in this fast-evolving environment will likely be more difficult to maintain, but a shared sense of purpose can add much-needed cohesion and glue. Families with longevity inherently have an adaptive mindset because they have lived through and survived system shocks. However, the pace of change requires an element of a rethink. Simply relying on thinking and behaviours that have served the family well in the past is not likely to be enough to thrive. Adopting a non-linear, circular approach is likely to better prepare families to cope with future system shocks and underpin living the family purpose.

In many wealth- and business-owning families, discussion takes place on the development and maintenance of family constitutions and other means of documenting vision and governance. But all too often, what is in the family constitution does not find its way into the actual ownership vehicles that are put in place for the family. Complex trusts and other arrangements, possibly designed for other purposes, such as tax minimisation, may not actually reflect the better-thought-out governance approaches covered in a family constitution (or the dynamic nature of family life). In the event of a family dispute, will the non-binding constitution have any impact on litigation that relates to a particular trust deed or other arrangement? Does the family really understand and uniformly buy into the family constitution?

Real sustainability for families requires that there be consistency between the objectives of the family (such as: ‘we want to be a family in business for the next 100 years and more’) and what the family actually does in terms of how assets are owned and structured and how family assets, including human capital, are developed and protected.

FINDING VALUE IN 'WASTE'

In very simple terms, circular economy principles involve eliminating waste to the extent possible and ensuring that resources are fully utilised. The elimination of 'waste' includes maximising the usefulness of resources and uncovering value and opportunity in 'waste'. This thinking can be applied to any industrial or other activity and increasingly is. But how can a wealth- or business-owning family apply this thinking to their family and family assets? Are family members resources that are inadequately developed, supported and taken advantage of? Are underperforming family members exited or encouraged to excel? Are mental health, addiction or other issues addressed with a view to a full-on recognition of the balance needed between the 'I' and the 'we'? Best practice would involve early interventions: mentoring and educating the younger generation; identifying individual talents and making sure that the resources the younger generation offer are properly taken advantage of. These resources can include not only areas of interest and ability of the younger generation but also their desire to be physically located in certain geographies.

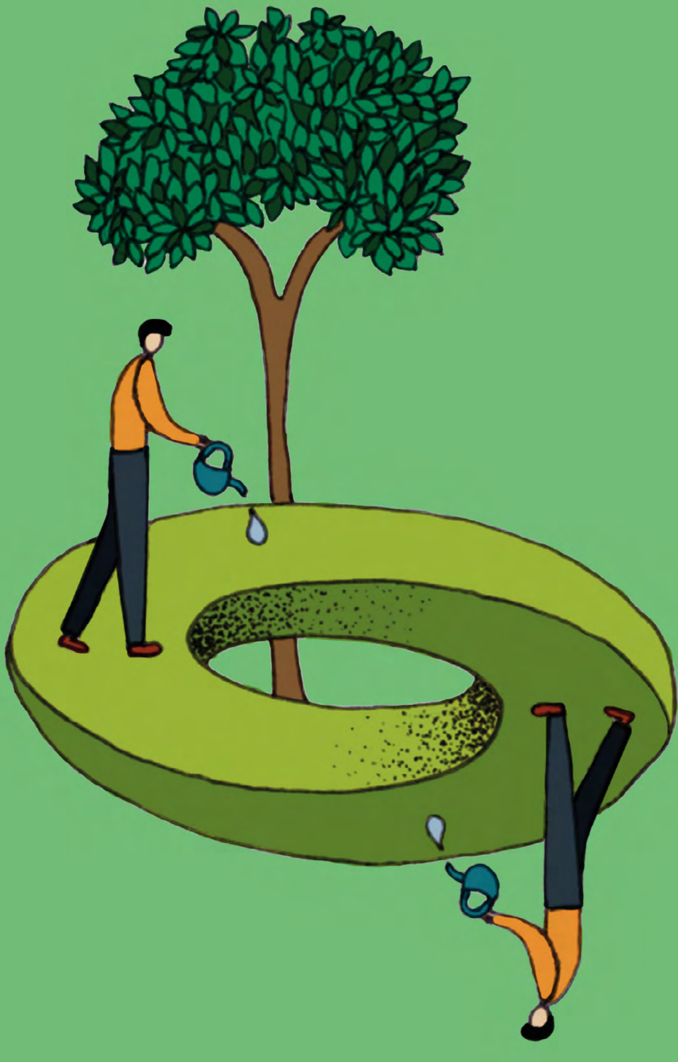
It makes little sense to force someone who wants to become a doctor into studying business, given the wrong signals on personal development this may give. A frustrated family member with a business degree may well be compromised and add much less value than a well-educated doctor with the right mindset to support the objectives of the family.

Maximising the usefulness of resources comes into many elements of planning for families – but using a circular economy lens in addressing some of the issues wealth- and business-owning families face can help ensure that planning is holistic and comprehensive. Early education within the family about the responsible and sustainable use of financial resources is important.

In evaluating the resources of a family, these extend well beyond physical assets such as interests in wealth and businesses. The experience of the family, its reputation and standing in the community, connections to those who support the family, such as employees, the community, governments and others are all part of the resources a family seeking real continuity needs to avoid wasting. Most importantly, human capital within the family needs to be developed and preserved. Understanding and developing socioemotional wealth is an important objective wealth- and business-owning families should have. This relates to the non-economic wealth of a family, to which often insufficient attention is given. How socioemotional wealth is developed, protected and passed through the generations needs at least as much attention as economic wealth.

Adopting circular economy principles in family governance goes beyond perpetuating the family unit, it means realising value in 'waste', recycling 'waste' and extending the lifespan of resources through repurposing and regeneration. These concepts can apply to wealth- and business-owning families themselves, but all too often are not thought about as legal advisors develop 'exit' mechanisms in trust and shareholding arrangements on the basis of valuing the 'pruning of the family tree'. Family business advisors often advocate the retirement of family elders to make room for the younger generation. Tax advisors may discourage the participation of family members holding particular citizenships, such as that of the US. But is this all a waste of a family's human capital? Can inclusionary approaches achieve more than exclusionary ones? Importantly, families are well placed to lead by example and to demonstrate to their peers and to non-family businesses the value of inclusion versus exclusion.

For a wealth- or business-owning family, adopting circularity means going beyond sustainability practices in the business – it means applying similar concepts to the family unit itself.



HOW PARADOXICAL THINKING SUPPORTS CIRCULAR ECONOMY PRINCIPLES

Embedding circular economy principles into the family system often involves confronting opposing or contradictory logics. Paradoxical thinking allows participants to see bridges between these opposing logics through the emergence of unimagined possibilities, allowing circular principles to be incorporated into the family system. Families must resist the instinctive belief that the way they have always done things is the best way to proceed today. Intransigence or narrow thinking can limit a family's ability to develop into an effective and impactful organisation. Focusing on the 'both/and' framework will encourage less rigid and more creative and pragmatic thinking.

In some prominent families, patriarchies by and large, little planning has been done for those in the younger generations who were not expected to enter the family business. Therefore these multi-generational families often have more family members who are pursuing lives outside the family fold in an unstructured way, often enabled by the family dividend, which, although keeping them connected to the business, makes some individuals unhealthily dependent on the family shilling. They may have taken the off-ramp, but where is the on-ramp should they so wish to, or be required to, join the business?

The most evolved single family offices today proactively pay a good deal of attention to family education in the widest sense, recognising that for the majority of the children of wealth and business owners, the best future is one beyond the family business and that the wellbeing of all family members is equally important. For too many wealth-owning families, the default position in the past was simply making sure that children went to the right schools and universities. Career development and mentorship applies equally to those who are seen to have a future within the business and to those who, at the outset, are not. Education is also critical in addressing a key concern raised by many families: to make sure that wealth does not become a disabler for the younger generations. Some families ensure that younger family members are educated in both understanding the key operating businesses and, more importantly, in financial matters to help them become 'better owners'. Most do not rely on the future generations' abilities to run operating businesses but they do need them to be able to make the right investment and divestment decisions to maintain and grow the family's wealth.

The natural tensions within a family of factors such as increased size, diverse interests, different risk appetites and geographic spread have also led to operational challenges, which inevitably bring fragmentation. A key differentiator is whether the family is still involved in an operating business or not. Many families see the operating business as synonymous with the history and core of the family, others see it as a chapter in the history of the family. The existence of an operating business usually creates a stronger emphasis on family cohesion and this has often impacted the family's commercial decisions, in particular around very mature assets seen as iconic for the family.

For example, family members pursuing an independent career may lead to concerns about their separation from the family enterprise. ‘Either/or’ thinking may lead the family to think about who is in or out. ‘Both/and’ thinking gets people to consider possibilities for how to allow family members to re-enter or contribute to the business and family regardless of their immediate area of focus and interest. They may come up with a revolving door policy and other approaches designed to embrace the reality that family members may move closer to, or further from, the family business from time-to-time, but even in periods of distance may be able to contribute to the family and its interests in a variety of ways. With this perspective, rather than splitting up the business, independent family members can strengthen the family business.

Instead of choosing option A or option B, adoption of circular principles allows families to uncover possibilities – different combinations of A and B and a broad range of variations between the two. This goes beyond a family being inclusive – it allows a family to be *generative* – thriving on the diversity of skills, interests and backgrounds of family members through the generations, including geographical diversity, which can be increasingly important in tax and political risk minimisation planning. A family can leverage divergent interests rather than being forced to draw the line between in and out. A family can move from mediating conflict to thriving on conflict.

How can wealth- and business-owning families be sensitive to the opportunities for applying circular principles? Embracing paradox thinking, shifting from an ‘either/or’ mindset to a 'both/and' mindset, is an opportunity to move to circularity. This involves finding the connections, bridges and other points of integration between seemingly contradictory positions or imperatives. For example, a member of the next generation wants to become a veterinarian instead of joining the family business. Applying 'either/or' thinking may involve the patriarch trying to convince them to drop their plans and join the family business. A 'both/and' perspective may involve looking into ways that veterinary expertise, knowledge and networks could benefit the family. For example, the member of the next generation might work with the family on a corporate social responsibility programme while being well prepared to support siblings or professional staff who are involved in running the family business. And if the veterinarian eventually develops a business relating to the area, a family bank, as touched on below, might allow the main family business to capture a new area of growth for the longer term.

Families are complex systems and can benefit from parallels that appear in other complex systems, whether in nature or otherwise. The more choices that arise, the more flexibility is needed in how things are regulated if success is to be achieved. Ross Ashby's introduction of the concept of 'requisite variety' can be helpful in supporting the idea that the more choices that are embraced by a family, the more likely the family and its business interests will adapt and survive.[7]

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[7] See: Robert Dilts, *The Law of Requisite Variety*, NLP University Press, 1998.

If the family constitution is, for example, the regulatory framework for the family, the more it can keep pace with growing variety within the 'system' – the family and its business and investment interests – the more likely successful outcomes can result. A family can and should be able to keep its goals constant, but achieve these by varying and flexible behaviours, many of which cannot be predicted or fully controlled. A 'command and control' approach to family governance may not be fit for purpose if the objective is circularity and long-term success. Circular principles also involve seeing time as cyclical, following the pace of regeneration and broadly focused on distal past/futures.

Having the right mindset is the first step – adopting circularity in governance and other structures that the wealth- or business-owning family uses is what it is all about.

Part Two

A few examples of circularity and the celebration of paradoxes in the context of typical family needs and issues

CHANGING DEMOGRAPHICS AND THE ROLES THAT FAMILY ELDERS CAN PLAY

The good news is that we are all living longer than was the case in the past. The fact that family members can live well into their 80s, 90s and increasingly over 100 brings a number of challenges and opportunities. For wealth- and business-owning families, there are many areas that need consideration in light of changing demographics. These include dealing with the dangers of dementia and the need to consider living wills and other protections associated with the challenges that ageing can bring. Protecting against a variety of forms of elder abuse is also critical, though not always easy, particularly where a powerful but ageing family member falls victim to predatory relationships.

But in addition to addressing risks associated with ageing, the fact that family members may live much longer than has been the case in the past presents a number of other challenges and opportunities. If the matriarch or patriarch remains in a leadership role for decades, will this stifle the development of younger family members and even non-family executives? Will a forced handover of duties and responsibilities not only create friction but also compromise the happiness and sense of fulfilment a deserving older-generation family member could otherwise achieve? Do decisions regarding the role of family elders have to be 'either/or' a fixed retirement age set, or no retirement age and an elder being allowed to continue in what may be a dominant role for the long term? Among the issues that an 'either/or' approach gives rise to is that it is pretty inevitable that resources will be wasted. Retirement that is premature will waste a valuable family elder's ability to contribute; retirement that is postponed may waste an opportunity to bring in the younger generation to take on a leadership role.

If the wealth- or business-owning family shifts to a 'both/and' mindset and uses circularity as a framework for decision making, the contradiction between the family elder remaining in their role and a member of the younger generation taking on the role might be resolved. A commitment to finding a solution that provides both a meaningful role for the family elder that is one that family elders will cherish and aspire to, while allowing for the mentorship and early entry into leadership of the younger generation, is a simple example of how circularity works: *all* resources are maximised and celebrated – not as compromises, but as carefully considered and crafted approaches to uncovering possibilities and developing them into lasting value for both the family as a whole and the individuals involved.

CIRCULARITY AND SUCCESSION PLANNING

Good succession planning is a need that every family has. No family can avoid the changes that take place in the event of death or incapacity – changes that affect the governance of assets as well as their ownership. Yet all too often succession planning is inadequate, resulting in wasted resources on any number of fronts, including that resulting from the costs, financial and emotional, of family disputes.

Succession planning involves many, many elements if it is to be holistic and reflect good continuity planning for a wealth- and business-owning family. Following are some short examples of how a circular economy mindset can help in a variety of areas.

1. Dividing things up

Good succession planning means knowing what assets are to pass on death, disability or at earlier stages; ensuring that these are subject to a solid inventory so everyone knows what they are looking for and clarity on who gets what. Lots of complexities arise here, including working out what assets should not be divided up and how such assets are to be governed and employed.

A circular economy mindset may bring with it clarity that circularity can be achieved through a combination of ensuring that each family member is financially secure and knows how family assets can support their personal success. This includes having clarity on the freedom and consumption of assets as well as on assets that are truly circular – belonging to no one in the family, but being the subject of stewardship that ensures continuity. Where there is a mix of financial independence of the younger generation with clear mechanisms to help the family as a group 'capture' successful individual initiatives, such as through the family bank approach described later, a truly regenerative family enterprise can result. The younger generation need to be confident about their personal resources in order to allow them, as individuals, to properly steward family businesses and other assets in the interests of all stakeholders. Is it better to leave valuable and meaningful jewellery to one child, injuring the feelings of another, or to divide the jewellery among the children as a whole, with one then gifting a family heirloom to a temporary love who then runs off with the item? Perhaps more circular is to have the jewellery be held in trust for the family for the long term, with a mechanism allowing for the use on loan of the jewellery to family members over generations? Will this ensure that a wider group of family members will enjoy the family heirlooms and preserve them for future generations?

2. At what ages should family members benefit?

There is much that can be said about the pros and cons of family members receiving meaningful assets at a young age. As in many areas of succession and asset protection planning, there are no hard and fast rules that apply in all cases. But what is clear is that younger family members receiving too much, too soon, can compromise their enjoyment of the successes we all have the ability to enjoy at various stages of our development. Worse, mismatched expectations can result in unhappiness and, in the extreme, ruined lives and destructive litigation.

A circular mindset that embraces a 'both/and' approach allows for the idea that one can benefit the younger generation earlier *and* hold back access to assets at the same time. Managing expectations is best achieved through early communication with the younger generation on the succession and related plans of the family. It is not important to discuss the value of assets, but it is good to let the younger generation know early on the principle that they will be taken care of in terms of health, education, housing and other basics while not getting much more until much later. This information may well impact their drive to study and create their own success and get themselves ready for whatever role they may play in or out of the family business in future. And the more financially independent family members are, the more their thinking moves away from the 'I' to the 'we' – effective stewardship of family businesses and assets is much easier to implement where this occurs. When family members are forced to be dependent on their parents for money even into their adulthood, the likelihood is that on the passing of their parents, they will be clamouring for ownership (and not celebrating stewardship) of the assets their parents leave behind. This gives rise to a wasted opportunity to develop true stewardship that could be circular and regenerative, benefiting the family and those around the family.

Instead of thinking of financial independence as strengthening individual members at the expense of the family, embracing a paradox mindset surfaces solutions for how financially independent members can strengthen the family business and facilitate the shift to 'we'. This adaptive mindset, which allows families to define success in a more comprehensive open architecture manner, is likely to lead to all the family's capabilities being harnessed in support of the family purpose in an optimal way for the family and for the business.

3. Governance

A family's adoption of a circular economy mindset, coupled with paradoxical thinking, goes beyond avoiding the waste of family resources to leveraging on 'waste' as a source of new opportunity. Leadership selection moves to an inclusive collaborative process that emphasises the celebration of diverse perspectives and skillsets through shared leadership and roles, rather than an exclusive competitive process that emphasises the selection of one leader and the exclusion of others. This opens the possibility of a number of family members rotating through important roles, which could fundamentally alter the dynamics of how family members prepare themselves and support each other. In a family business where new skills and experience are needed to deliver on the evolving strategy, it may well be that the best-qualified family talent is not working in the family business. In a supportive operating environment and culture, it is more likely that this external family talent can be attracted to, and brought into, an executive or non-executive board role.

4. Incapacity and ageing

We are fortunate to be living in a time where we all have the chance of living longer, healthier lives. But changing demographics also brings with it challenges for wealth- and business-owning families. Will opportunities for the younger generation to develop be closed by the older generation being able to discharge their duties for longer? Do increasing risks of dementia and other disabilities increase risk for the family business?

On the issue of ageing, there is a strong tendency to think in 'either/or' terms. The term 'ageing' refers to an unchangeable, inevitable human condition brought about by the passage of time. People only grow old – they do not grow young. The past and future are distinct and separate. In the future, people decline and become less relevant. The past matters less, further into the future.

An 'either/or' approach requires very difficult decisions – when should Mum or Dad hand over the reins and retire? Do we take away their ability to sign things and handle their wealth at the first signs of dementia? Early retirement might waste a hugely valuable resource; not putting the younger generation in key roles may waste an opportunity to keep the younger generation family member interested in being part of the business. Taking away signing authority may accelerate feelings of ageing and uselessness, wasting decades that they might continue to thrive in despite the onset of dementia.

A 'both/and' perspective surfaces practices that support circularity principles – practices that build interdependencies between the past and the future. A family elder moves into a new role at age 65 – a role that better fits an active, experienced leader, now able to spend more time sharing and mentoring. The younger generation moves into the right leadership role at the right age. In the case of Mum and Dad, and the onset of dementia, early on, even before anything manifests itself on this front, they are part of a decision that at various stages in the ageing process, authority to sign and manage assets will move from the 'I' to the 'we'. Much like the thinking for the younger generation, there is maintained, for as long as possible, a true sense of independence for the ageing family member. Mum and Dad have access to reasonable funds and can make their own decisions on those funds for a long, long time – but not over chunks of assets that can compromise the longer-term interests of the family as a whole.

5. Divorces, second families and more

There is no end to the distress and destruction to family relationships and businesses that the realities of life bring. Divorces are destroyers of wealth (or, depending on your perspective, a creator of wealth – particularly for the spouse entering a business-owning family and exiting the marriage with a healthy chunk of the family business and wealth in hand).

Living longer and healthier lives is increasingly giving rise to more romances between participants who may have decades between them in age. Among these romances are any number of relationships that are, in varying degrees, driven by the economics of connecting to someone wealthier and part of a wealth- or business-owning family.

There is an industry around these relationships, and even litigation-funding firms that are now specialising in financing spouses seeking to detach themselves from a relationship in an exceptionally profitable way.

There are many issues to address in this area, but a circular economy mindset allows for approaches that are circular, and not 'either/or' in approach. Clarity on the financial picture associated with relationships is part of a circular approach – one that is focused on avoiding the waste of family assets of any kind, including emotional wellbeing.

Early conversations with children about pre-nuptial agreements and the importance of communication with a potential spouse about the economics of the relationship is vital. Waiting until one's son or daughter comes home holding the hand of the love of their lives to insist on a pre-nuptial agreement is a recipe for unhappiness, at least in part based on a (right or wrong) assumption that the discussion has arisen because of the parent's view of the bride- or husband-to-be. Much more effective and meaningful is to have this conversation way ahead of any romances – ensuring that children understand the value to their future relationship and to the family and family business of having clarity on the financial deal associated with relationships, whether in marriage or otherwise.

This same approach is vital for family members of all ages. All too often the focus is on the children and their marriages – but what of the 70- or 80-year-old patriarch who thinks the 30-year-old he is in love with is interested in him for only his charm and good looks and not in any way for his wealth? And is this cynical view itself not circular in that it short-changes that 30-year-old in terms of what they can contribute to the wellbeing of their new husband and possibly to the family as a whole? Indeed, it is wrong and anti-circular. A better and more circular approach is to openly discuss and plan things with the involvement of all stakeholders. Perhaps the new, younger spouse needs financial independence and clarity regarding what they will get (and will not get) before the relationship is formalised. And the patriarch in love, perhaps through the family constitution or otherwise, will know that well before the relationship ever started, he was part of a family understanding that in the case of such new relationships, he would not only have a pre-nuptial arrangement but would also part with a good part of his assets in favour of his family *before* embarking on his new relationship.

Could such a circular view avoid the waste of not only financial resources but also the human resources lost through the mis-match of views that all too often occurs where there are second marriages or other similar situations?

These are only examples of the highly emotional and sensitive areas that come up within families. Sustainability and a circular approach may require work for a family to be in a position to address and speak about emotional issues, something that is by no means easy. Courage is needed, together with the ability to act with respect and develop a sense of goodwill in the family system. We see mediation and arbitration on legal principles and issues – why not on behavioural and ethical ones too? As Stefan Liniger, the CEO of Kaiser Partner AG commented to the authors, 'emotional waste' precedes other waste in the family, and having filtering and cleansing processes in place can be hugely valuable, something Stefan refers to as 'psycho-hygiene'.

A 'REVOLVING DOOR' MINDSET

Many family business advisors focus on the need to 'prune' the family tree. The rationale for this practice is that where a family member may be dissatisfied with how the business is being run, or is not interested in the business, it is important to have an 'exit' procedure that can avoid disputes. Buying out family members is not merely expensive, it can be wasteful. On the expense front, this can be managed through carefully drafted buyout provisions in shareholders agreements and similar that allow for payments over time, and reasonable valuations. However, pruning connotes a permanent separation. Once a family member is out, this may mean a loss of a human resource asset – and not only of that family member but the entire branch of the family involved.

A 'revolving door' is an approach that reflects circularity and that celebrates the 'both/and' choice that can be made. Yes, there is an approach that allows a family member to temporarily distance themselves from the family business with terms for how they can return or be involved in the future. Perhaps this is backed by clear financial arrangements that give some level of financial support to all family members regardless of involvement in the family business or other functions, with increased financial participation based on additional contributions. But the revolving door is always open – to the family member to return, perhaps on a buy-in basis, and to all of that family member's children and further issue – avoiding the loss of human capital 'pruning' the family tree and an exit would result in.

It is encouraging to see the change in the way family members collaborate when they know that the exit sign over the door is not accompanied by a locked security gate keeping them and their children out of the family business forever. The revolving door encourages the 'we' over the 'I', and an approach to conflict resolution that favours the family business being protected over the long term.

THE 'FAMILY BANK' AND ITS RELATIONSHIP TO THE REVOLVING DOOR MINDSET

A family may be celebrating the third generation coming into the ownership of a meaningful family business. Like most business-owning families, work is done on developing continuity and governance frameworks designed to protect the family business and to ensure effective family oversight, perhaps as non-operating owners of the family business. But how much work is done by the family to encourage and support the diverse interests of the younger generation? Is there clarity regarding how the family might support and capture entrepreneurial endeavours of the younger generation? If there is no discussion and clarity on these issues, what happens when a child approaches her parents with a business idea that might be worthy of support? If the parents decide to make funds available for the business venture, who enjoys the success of the investment if the business does well? Who suffers if the business fails? The other children in the family may be resentful if their sibling is supported in an investment that then produces enormous success for that sibling given the family investment involved. If the business fails, and the funds are lost, the reduction in the wealth of the parents will affect all the siblings and not only the one involved in the investment.

A circular mindset would question whether neglecting the possibility of capturing the entrepreneurial endeavours of family members is wasteful. And, importantly, if assets are idle, is it not wasteful to not apply these to supporting good ideas among the younger generation (or indeed coming from any generation)?

A better way might be for the family to develop a 'family bank' mindset. This can be an informal approach that is made part of the family succession plan, reflected in trusts, foundations, wills and other tools used in the succession process. The approach can be more formal, and might involve the establishment of a family investment vehicle, and even in some cases an actual 'family bank'. But the main objective is to discuss and agree, within the family, an approach to be taken to both encourage and support entrepreneurial activity in the younger generation. And, where appropriate, to have a formula that might allow for such entrepreneurial activity to be 'captured' by the family. Among the areas a family might consider addressing would be:

- Funds are set aside and made available to support entrepreneurial activities in the younger generation.
- An approach to evaluating investment possibilities is developed and agreed. This might involve links to third-party valuers and business consultants to help guide investment decisions.
- A family member with a business idea presents the idea to the 'family bank'. If an investment is to be made, it follows an agreed approach – this might, for example, involve the 'family bank's' investment taking the form of debt and equity – say 80% being in the form of debt, carrying an agreed rate of interest, and 20% being equity. If the investment made by the family member promoting the project is successful, the 'family bank' owns a 20% interest in the business and will be repaid the 80% debt. If unsuccessful, the 'family bank'

has lost its 20% equity investment, but the debt portion is taken out of the relevant family member's future share in family succession. The percentages and approach matters less than coming to a clear understanding within the family, in advance, on how the 'family bank' might work.

- In order to 'capture' the business for the long-term endeavours of the family as a whole, the investment by the 'family bank' might carry with it options for the family to purchase the business in different circumstances including, likely, first refusal rights.

The 'family bank' can be used for more than just fostering entrepreneurship. The approach can be used to provide financial support in the case of incapacity, ageing and otherwise. There may be foundations or trusts used for this type of family support, but with financing provided by the 'family bank', perhaps operating as a feeder fund distributing certain revenues to support the structures that protect family members as they move through life transitions.

USING CIRCULAR ECONOMY PRINCIPLES IN CONFLICT RESOLUTION

Embedding circular principles in the context of conflict can lead to generative outcomes. For example, sibling rivalry could be harnessed by having different siblings rotate their leadership of different businesses. Disagreements about dividend payouts could lead the family to work out a way for family shareholders to value their holdings and cash out, or to set up new vehicles (e.g., a 'family bank') that cater to different stakeholder needs. Importantly, underlying these principles is the acceptance that family members have different needs and motivations.

Differences need not lead to relational disharmony and separation. A 'both/and' mindset helps one see the importance of putting in place structures and processes that allow differences to exist while maintaining relational harmony.

POLITICAL RISK AND ASSET PROTECTION

In simple terms, political risk has to be considered at three levels. First, attention needs to be paid to political risk in the country of the citizenship and/or residence of the wealth owner. This may involve dealing with more than one country given that there may be multiple citizenships and places of residence involved. Second, political risk needs to be considered in the location that investment structures are maintained. A wealth owner may live in the UK, for example, but there may be trusts, companies, partnerships, investment funds or other holding vehicles located somewhere else. The jurisdiction in which the structure is maintained is also highly relevant to any political risk-minimisation strategy. Third, of course, is the country in which an investment is made.

Compared with commercial risks, political risks can be amorphous and hence difficult to predict and manage. Moreover, the political risks in the country of investment are likely to be different to those of the home country. Political risks can manifest in varied and challenging ways. Examples range from circumstances of revolution, civil unrest and civil war to politically charged changes in regimes or governments, or – more prosaically – marked policy and regulatory changes or discrimination. Moreover, recent and wide-ranging international changes to tax and transparency frameworks are related to political risk. As mentioned above, risks can exist in the countries of intermediate structures, such as investment vehicles, partly due to ongoing challenges to traditional offshore centres.

A circular approach to de-risking includes taking advantage of the geographic diversity of family members and of assets, and here making use of a number of de-risking techniques, including the careful use of investment protection agreements and otherwise. But a focus on diversification of ownership – simply not having all of one's eggs in one basket – is an important step.

Diversification typically breeds complexity, which reinforces the importance for a clear vision, strategy and governance. A huge part of that vision is the overarching purpose. Diversification is not only about a diversification of the family business or assets but also about diversification of ownership. Most families understand the need to diversify their investments – less of a focus for many families is the desirability of diversifying how assets are owned and by whom within the family. All too often, there is one holding company, possibly owned by a single trust, that holds all family investments. But in a world of considerable risk, political and otherwise, diversifying ownership can be important. This might involve having different family members own different portions of the family business and investments, possibly within understandings between family members on how they will support each other in times of crisis. Ownership diversification can also involve using different vehicles to own different assets – having more than one trust, and using partnerships, insurance strategies and other structures to hold assets, creating a diversification of ownership. The ownership of the 'family bank' can be part of this diversification. For some families, the actual ownership of a bank, regulated in its ability to return capital, may be part of an overall asset protection strategy.

CULTURAL AND RELIGIOUS APPROACHES TO SUCCESSION PLANNING AND A CIRCULAR ECONOMY MINDSET

It is interesting to learn from wealth- and business-owning families around the world and to observe their varying perspectives on the role of culture and religion on succession planning and other approaches affecting the governance of family businesses.

In very broad terms, the reality is that there are more similarities among families around the world than there are differences, and culture is often overplayed as something that will reduce family disputes and the pitfalls of inadequate holistic continuity planning. Being a Chinese family, or an Indian family, or a Jewish family, or a Catholic family or a family following Shari'a principles is not a guarantee that the all-too-regular roadblocks to smooth transitions will not arise. This said, there are elements of circularity in some religious and cultural approaches to succession planning that we can all learn from. There are also circular economy mindset principles that can enhance the way in which cultural or religious approaches are applied to the succession process. This may also serve to protect a family's spiritual capital.

In a number of cultures, the family business has been viewed as something that transitions to the eldest son, and with only family members carrying the family name (the sons of sons) participating in the family business. Although this approach runs entirely contrary to the circular mindset, given the 'waste' of family resources it results in, there are elements

of circularity in the historical elements of the approach that are sometimes forgotten.

Potentially wasted resources include, of course, the female line in the family as well as the males who do not carry the family name – the sons of the daughters in the family. Other potential wastes of resources include capable in-laws, and the males in the family younger than the oldest son – which males may well be better business leaders than their older brother, something suggested by studies by, among others, Professor Roger King of the Hong Kong University of Science and Technology's Tanoto Family Business Center.[8]

But a model of succession that clarifies governance has positives – the elder son knows his responsibilities and if the family buys in to the overall approach, the roles of all family members are clear – to support the elder son and to adopt roles for themselves (and to prepare themselves and their children for these roles). In the modern world, it is all-too-often the case that the imposition of traditional approaches to succession represent a mindset that does not fit with the westernised mindset of the younger generation – meaning that the family does not buy-in to the way this was all meant to work. Those left out, whether daughters, in-laws or younger brothers, fail to prepare themselves for and fulfil the roles they could have played in supporting the success of the family business.

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[8] Research on this subject is unpublished to date, but is referred to in the teaching of Professor Roger King. See: https://facultyprofiles.hkust.edu.hk/profiles.php?profile=roger-king-rking

There are elements of traditional succession approaches that are circular and that might provide useful guidance. A clarity of roles can be critical to successful succession planning – as can objective versus subjective approaches to the selection of leaders. If we know that the elder son will be the boss, the friction associated with selection is avoided. If we know that we are not one of the members of the family who will be running the show, we know we should be out there making our own way in the world. If we know we are the elder son, we should also know the full range of responsibilities this brings – not only for the family business but for the family as a whole, including the responsibility to ensure that all family members have opportunities to develop themselves independently.

Properly applied (which, in the modern world, it is all too often not), there can be benefits to a traditional succession approach. More exciting is where some of the thinking behind traditional succession approaches are combined with a circular economy mindset and modernised. Rather than having the elder son run the show, there is recognition that success will come from a move away from an 'either/or' mindset to a 'both/and' approach. Maybe the ultimate leadership of the family business correctly goes to the most capable in the family – which might be a daughter who is not the eldest of her gender. But a clarity of role of the elder son and the responsibilities for the family overall is also in the mix – together with the traditional approach of having all family members fully support each other and the 'we' rather than the 'I'.

For Muslim families, Shari'a principles govern succession. Broadly, and this varies considerably between different schools of Shari'a and otherwise, females get half of what males do, and, interestingly, succession rules require that assets be divided and distributed at death. On this latter point, this can be highly destructive of a family business. There are tools and approaches that can be used to manage this, including the use of shareholders' agreements and lifetime gifts, but the often-used western concept of discretionary trusts that can keep assets out of direct ownership of the younger generation are generally not acceptable under Shari'a particularly where the transferor only gives up elements of ownership on death.

First, those governed by Shari'a can learn from the circular economy mindset and use a variety of approaches that are Shari'a compliant to achieve the benefits of circularity – the avoidance of wasted resources, including daughters and including implementing ways of encouraging succession that focuses on the 'we' vs the 'I'. Second, those observing Shari'a from a distance, together with families committed to Shari'a, can benefit from the learnings Shari'a provides. A clarity of who gets what and the requirements on succession that are objective rather than subjective do much to avoid the mess that families often get into when they seek to communicate with their wealth – making subjective decisions on succession rather than being guided, as Shari'a does, into treating all sons equally between them, and all daughters equally between them. The Shari'a approach avoids assets going into 'suspension' on death, as they often do in the discretionary trust model. This can result in the younger generation being detached from their personal connection to the family business or family wealth, which may well bring less successful outcomes.

In the context of families seeking to use a circular economy mindset, combining the idea of having each family member have financial independence, as is assured under Shari'a, can help each member of the younger generation to feel, given their financial security, that they can now focus on the 'we' – not only the family but also the community, the world and the greater good.

Conclusion

Elimination of waste and pollution; circulation of products and materials; regeneration of nature: the principles of circularity can help wealth- and business-owning families to develop governance, stewardship and asset-protection strategies that are regenerative and that align the external focus of the family with its work on the internal. Where there is alignment, there is potential for much more than continuity and stewardship. There is potential for true self-actualisation of all family members that ensures emotional wellbeing and that aligns to the objectives of the family for their own businesses and wealth *and* for how these can benefit all stakeholders for the very long term.

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Applying circular economy principles to family business and wealth stewardship can provide a new approach to governance frameworks for wealth- and business-owning families.

Circularity, in broad terms, means both avoiding and finding value in 'waste' – not only of natural resources but also of the human resources within families, including family members not directly involved in the family business but who have a stake in the future and who need to support those in more active roles. Such family members highlight the kind of paradoxes families face – should a family member be channelled into working in the family business or be allowed (and encouraged) to pursue their own career, reflecting their personal interests and aspirations? Are there ways to achieve this that add meaningful value to the family and its wealth and business interests?

This book suggests the answer may not be 'either/or'; perhaps a 'both/and' option can be a solution. Family members can be supported on the path to self-actualisation. They can be excited about supporting and taking advantage of the opportunities the family business offers, and can contribute their personal knowledge, skills and experience to enable the business to expand into new areas.

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