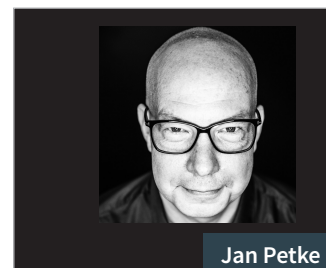




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Adaptive Governance For “New Wealth” vs “Old Wealth”

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Whether wealth is old or new, top-notch governance for families is essential. The authors of this article consider the issues.

The following article examines the practices and approaches required to handle newly-created wealth, and wealth that has come down the generations. The authors (details below) are Richard J Wolkowitz and Jan Petke. The editors are pleased to share these insights. The usual editorial disclaimers apply. If you wish to contribute to the discussion, email tom.burroughes@wealthbriefing.com

One of the many benefits to working with hundreds of families is the ability to define patterns and watch trends emerge.

This valuable, real-world experience helps derive relevant insights, practical advice, and counsel to provide clients with best/worst practices and outcomes. This deep exposure adds value to multi-generational families who seek to flourish in an evergreen manner with both durable family harmony and financial prosperity.

Collaborating with deeply experienced family enterprise advisors who work with both US and European families allows for an even larger and more diverse data set to confirm or question these trends and patterns. Globalization continues to accelerate as fast as technology permits, as integrated lifestyle, business, workforce, and educational systems intersect more frequently and commonly. This requires more, not less, collaboration between cross-border family enterprise advisors as well.

Question presented

“What rules and laws can actually be applied to the new generation of wealthy people?” was the question put to a leading family governance expert. His answer was clear and unequivocal, “None! – we must write new rules and new laws for the new generation of wealthy people.”

Governance for “new wealth”

That answer was interesting, especially considering “new wealth” is not restricted by the legacy of prior laws, rules, policies, customs, and norms (or, governance). “New wealth” can forge its own pathway and blaze its own trail. Hence, “new wealth” is like working with a “startup” family with a “white board” opportunity to set out and define these new laws, rules, policies, customs, and norms (or, governance). Without past restrictions or historical family baggage, this enables “new wealth” family enterprises to develop to their full potential or self-actualization.

This idea can be both exciting and daunting. Some in the family enterprise excel when given the opportunity to create anew from a clean slate; while others in the family enterprise may not function well in the grey area, or in ambiguity, with no historical guardrails. This “freedom” is a paradox: allowing action and/or creating paralysis.

Governance for “old wealth”

“Old wealth” oftentimes has great wisdom derived from experience of conducting affairs over generations with certain laws, rules, policies, customs, and norms (or, governance), allowing for a resilient multi-generational family

enterprise with an ability to sustain itself. In some cases, the “old wealth’s” NextGen (or Rising Gen) may have influenced or changed the family’s vision with their own identity and passion as succession, transition, and continuity occurs. Interestingly, as “old wealth” transitions from one generation to the next generation, the NextGen of “old wealth” may have more in common with those of the LeadingGen of “new wealth,” rather than their own “old wealth” LeadingGen.

Development of wealth

Due to the size, number of generations, branches, ages, educational backgrounds, and geographic diversity of family members within a family enterprise system, there can be BOTH shared and divergent perspectives of wealth that emerge and exist concurrently within the family enterprise.

In the centi-millionaire segment (over one hundred million) in particular, we will see disproportionately high wealth growth over the next decade, with studies suggesting wealth growth of over 30 per cent. A glance at the S&P 500 alone reveals that entrepreneurs from the technology sector will lead the way in terms of wealth growth.

More than 80 per cent of “new wealth” are immigrants to the land of wealth. They open the door to this new land called “wealth,” but know neither the “language” nor the “customs and laws” of this new country.

It is even more interesting to look at the next generation of billionaires. Influencing factors such as global integration, virtual relationships, remote work capabilities, inflation, supply chain, global pandemics, regional wars, the great multi-generational wealth transfer, and the emergence of the personalities and characteristics from the centi-millionaire segment will further enhance and influence the growth and evolution of the next generation segment of billionaires.

And it remains to be seen whether the next generation of “new wealth” centi-millionaires and “old wealth” billionaires will differ fundamentally (or not) from the “old wealth” generation, not only in age, but also in their actions and mindset.

Self-determination of NextGen of “old wealth” and “new wealth”

It is time to support the NextGen of both centi-millionaires and billionaires in a very targeted way to give these families and wealth stewards the opportunity to make their own decisions with less reliance, less dependency, less control, and more freedom to “self-implement” the advice and counsel from the LeadingGen and the LeadingGen’s advisors.

Self-determination by these prolific families centers not only on alignment of values, goals, professionalization, and institutionalizing governance. Indeed, so that wealth reaches subsequent generations, the family as an institution must offer individual family members the opportunity to develop new skill sets and provide community enrichment that supports the effective use of capital in a targeted manner.

Comparing “old wealth” vs “new wealth” views on family enterprise matters

Perhaps the greatest law, rule, policy, custom, and norm (or, governance) for families of “wealth” – regardless of “new wealth” vs “old wealth” – is that great governance truly matters and ultimately helps to bind and shape the family’s values and culture. The family enterprise shouldn’t be constrained by hierarchical dogma; rather, it should enable the best governance practices to support a family’s vision, values, and goals. This customization allows for a natural alignment and will drive durable family harmony and financial prosperity.

Issue / Challenge	Old Wealth	New Wealth
Relationships	Encourages Dependence	Encourages Interdependence
Management Style	Top-Down, controlled, and heavy-handed decision-making	Bottom-Up, inclusive, with group-decision making
Information Flow	Safeguarded, not shared	Transparency, open book expected
Business Network	Relationships based upon social, socio-economic network; manifested by word of mouth and clubbing amongst other family offices	Prefers people not in their social network to improve diversity of thought, mitigate toxic loyalty, and preserve confidentiality; manifested through an RFI/RFP
Social/ Philanthropic Investments	Ad hoc, often directed and controlled by the wealth owner, wealth creator or wealth controller focused on traditional missions; manifested by pooling all family resources into a family foundation	Strategic, often includes family participation as a shared experience and legacy values opportunity focused on ESG/Social Impact/Affinity with benchmarking, impact scoring or ROT ("return on philanthropy"); manifested by a family foundation and/or individual donor advised funds
Relationships (spouses/children/grandchildren)	Paternalistic – reliant	Independent – no reliance
Advisors	Create dependency out of fear and shame, and rarely reviewed for performance	Create self-determination, not reliance through education and empowerment tools, and performance reviewed
Anxiety	Manage to steward and grow assets	Manage defensively to not lose assets and to preserve assets
Succession-Transition-Continuity	Scripted, paternalistic-based, family leadership-focused, by blood-line and often branch	Organic, merit-based, and open to considering non-family leadership with tangible skills and professional leadership experience
Family Employment Performance Ethos	Inclusive, unconditional acceptance even with poor performance; make positions available for all to provide for their respective families; create dependency to the family enterprise	Exclusive, conditional acceptance; performance expected and required; provide resources to perform or required to exit employment from the enterprise and seek employment elsewhere
Branding	None, secrecy key	Public awareness important to retain/attract employees and investment opportunity flow
Ownership	Rights of Minority	Rights of Majority
Decision-Making	More emotional and family-focused	More rationale/ logical and performance-focused
Performance	Group oriented, socialistic	Individual performance, competitive-driven, and capitalistic
Personal Development	None to minimal	Looking to reach the full potential or self-actualization
Peer Groups	Small, private, and usually based upon social network, and investments are made in control positions-only and/or 100%-owned	Larger, often open to other unknown yet financially qualified "UHNW" individuals/families searching for deal flow and open to clubbing deals.
Conflict Resolution	Conflicts rarely resolved, based upon generational or branches and carry-through from prior generations to current and future generations	Conflict resolution and a conflict resolution process is desired to resolve matters productivity and collectively, and to create interdependence, not dependence

About the authors

Richard J Wolkowitz is founder of Xylogenesi | Family Office Advisory and serves as a family advisor with 25+ years of first-hand, inner working experience of multiple family offices (of all types). Rich's background is in building and managing family offices, law, business, independent director and trustee service, and professional service firm leadership with a focus on serving multigenerational families and their full business and life continuum of needs. Rich began his legal career in The White House, was an equity partner in an AM 100 law firm, led three different family offices, and managed a global family business consulting firm. Rich graduated from the Georgetown University Law Center (LL.M), Gonzaga University School of Law (JD), and University of Illinois (BS), and resides in a suburb of St Louis, Missouri.

Jan Petke is founder and managing partner of C100Global, a UNHWI CentiMillionaire Peer Advisory Board. He helps wealth creators and their families in navigating the challenges of wealth. Part of C100Global is also a family office group, which is focused on the evolution and professionalization on family offices globally. Also the Rising Leader Group is focused on creating and supporting stewards of wealth. C100Global is mainly addressing the Gen1 and Gen2 as Ecosystem and Peer Advisory Board. Jan began his career as partner in strategic advisory at a McKinsey spin-off. He has mainly advised C-Level executives on strategic and organizational issues. He has also helped private equity managers, family offices and family business to solve strategic problems and innovate.