CHAPTER 1

The *Theory of Change*—Starting at the End and Working Back

I was first exposed to the *Theory of Change* at the Cambridge Institute for Sustainability Leadership (CISL) in England. Iraj Ispahani, a family business consultant I collaborate with, and I are founding advisors to CISL on programmes oriented towards wealth and business-owning families. In our teaching, we endeavour to help families appreciate the importance of social, environmental and economic factors to their own family, business and investment interests.

A key objective for me in my work with CISL relates to the importance of bringing all stakeholders, including governments and wealth-owning families, to an understanding of the contributions families can make to society and the important synergies a focus on impact can achieve for the families involved.

Use of the *Theory of Change* as a planning methodology is common in social change projects but has been little mentioned as an approach that can be useful in addressing planning needs for wealth and business-owning families. What I have begun to do is to use the *Theory of Change* to help families in their planning. My collaboration with Iraj Ispahani in this area has helped me develop my thinking on how the *Theory of Change* can be particularly helpful to families seeking to plan for the long term.

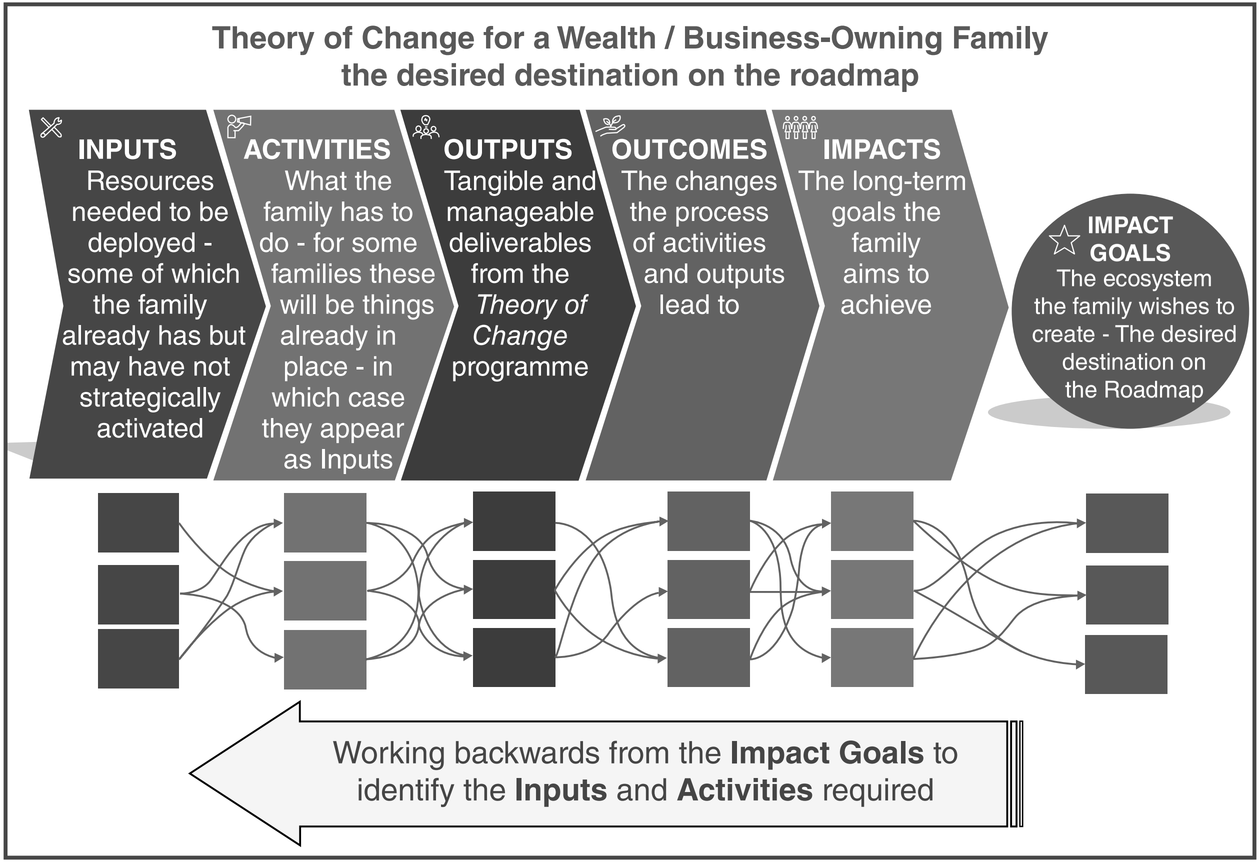
I also believe that the *Theory of Change* can help those serious about addressing the failure of countries to find the right way to align interests with wealth and business owners. I am hopeful that readers of this book will include policymakers, wealth and business-owning families and their advisors, as well as others interested in the important value family wealth and business does and can bring to society. This does mean, however, that some elements of my thinking on the *Theory of Change* will be more relevant to one reader over the other. It is also the case that not all aspects of using the *Theory of Change* in planning for families will be meaningful for every family. No two families are alike, and the complexity and volume of assets involved, among other factors, will affect how the *Theory of Change* can best be used.

In simple terms, the *Theory of Change* is a structured way to address programme planning and evaluation that teases out underlying assumptions, causal connections and anticipated outcomes, helping to guide and design a *roadmap* to change. One of the more important things that can result is clarity on the logic and rationale behind particular initiatives expected to bring about a desired result.

For me, the most important thing about the *Theory of Change* is the focus on the ultimate impact sought—the destination of the planning to be undertaken. In other words, the idea is to start at the end—what are we trying to achieve? Once the ultimate destination is clear, the approach is to then work back and ensure that steps are taken to reach the desired destination.

A typical *Theory of Change* can be set out in a diagram, starting with the ultimate *impact goal*, and then moving to the components that can help lead to that successful outcome. These components start with the *inputs and resources* that will be needed—in a sense, the investments that will have to be made and including funds, people, skills and delivery partners.

Most importantly, there are then *activities and strategies* that the programme needs to undertake. These are specific actions and interventions that can form an action list for those involved in running the programme. These *activities and strategies* then lead to *outputs*—the direct and immediate results of the programme activities, outputs that can be tangible and measurable. These outputs, in turn, lead to *outcomes*, which are the short and intermediate changes that occur as a result of the programme's outputs. These outcomes can include changes to how people think and interact and how things are done. Ultimately, these outcomes lead to *impacts*—the long-term overarching changes and goals that are aimed to be achieved.



Theory of Change for a Wealth / Business-Owning Family
the desired destination on the roadmap
INPUTS
Resources needed to be deployed - some of which the family already has but may have not strategically activated
ACTIVITIES
What the family has to do - for some families these will be things already in place - in which case they appear as Inputs
OUTPUTS
Tangible and manageable deliverables from the Theory of Change programme
OUTCOMES
The changes the process of activities and outputs lead to
IMPACTS
The long-term goals the family aims to achieve
IMPACT GOALS
The ecosystem the family wishes to create - The desired destination on the Roadmap
Working backwards from the Impact Goals to identify the Inputs and Activities required

When shown visually in a diagram, a *Theory of Change* sets out the causal relationships between these elements, such as how a particular activity can lead to a particular output that then leads to an outcome and ultimately an impact. The *Theory of Change* can help all involved in the programme to understand the logic of each element and align efforts towards common goals.[1]

If the *Theory of Change* is used in the right way, it can provide a clear strategic plan and framework that sets out interventions that need to take place. With clarity on the ultimate *impact goal*, the design of the plan of action can show the measurable relationships between *activities, outputs, outcomes and impact*. The approach can also help in communication among stakeholders, helping those involved to focus on the logic of the plan and the outcomes and impacts that are achieved.

Evaluation is helped as the effectiveness of the plan can be measured at each stage. The fact that the *Theory of Change* is a very learning-oriented methodology allows for the approaches undertaken to be adapted based on ongoing evaluation and feedback. Resource allocation is clarified as critical components of the plan requiring attention and investment are highlighted. Further, accountability is built in, given that expected outcomes and impacts are articulated at the start of the process.

I believe that the *Theory of Change* can be used effectively by virtually all families undertaking future-oriented planning. The *Theory of Change* can also be helpful to governments and others seeking to help ensure that wealth and business-owning families maximize their ability to benefit their communities not only through taxation but in a variety of ways oriented towards recognizing the symbiosis of interests and the synergies that can result.

To illustrate how the *Theory of Change* can work practically, I will use four examples that I will return to. Three are family related, and the fourth example is a government looking to develop its policies towards wealth and business owners.

The Apple Family

The Apple family is made up of Reginald Apple and Martha Apple and their three children, Brenda, Susan and David. Reginald and Martha did not start out with much in the way of wealth, but through careful savings they now own a home free of a mortgage, have a comfortable lifestyle, and have put aside somewhere in the range of US$500,000 in savings. Now in their early sixties, Reginald and Martha are considering their estate planning and particularly how they might best ensure their own retirement needs and then help their children in their lives as much as they can. Both Reginald and Martha are employed and working full-time, though they do anticipate moving to part-time work in the coming years.

The Apple children range in age from twenty-eight to thirty-three and while all three are unmarried, Brenda, the eldest, is in a long-term relationship with Alex that is looking to become more serious.

All of the Apple children are working, but only Susan, who is thirty, is earning enough on her own to cover her living expenses. Reginald and Martha provide supplemental allowances to Brenda and David to help them cover their housing expenses, something they have had to do since Brenda and David left home a year or two after graduation from university.

The Bird Family

Alfred Bird is a third-generation Bird, at least in his estimation. Alfred's father, George, claims that Alfred is actually G-2 (second generation) given that it was George, in George's view, who saved the family business from certain collapse.

The family business, a chain of fifteen retail hardware stores, had its origin with the first Bird Hardware operation established by Alfred's late grandfather, Alexander.

Alfred is sixty-five and George is ninety-one. Alfred has three children, Emily, Doug and Frederick, and seven grandchildren. Alfred recently divorced his wife, Sheila, and has since developed a relationship with Sophie, who is younger than each of Emily, Doug and Frederick.

George is widowed and has just started a relationship with Giselle, 50, whom he met on a cruise he took two years ago with some friends.

The Crane Family

Sara Crane is a uniquely gifted and widely respected entrepreneur. Now seventy-five, Sara, three years ago, sold the tech company that she had established and eventually built into a globally recognized brand. The family wealth is now well over US$4 billion and is invested in a broad range of private equity and portfolio holdings.

Sara's husband, Sid, died five years ago, and Sara's three children, Ed, Sam and Syd (a name similar to her father's but with a different spelling) are all in their thirties and early forties, and married.

Dagland

Not a family, Dagland is a country that has been through tough economic and political times. Grappling with trying to increase its tax revenues, tax policies towards those considered 'rich' have become a political football. Traditionally a country that attracted global wealth and business owners, today most advisors to such families are encouraging their clients to look elsewhere to establish taxable residence.

Dagland is reviewing its policies and trying to come up with the right balance between what it would take to attract and retain wealth owners to the Dagland economy while ensuring that it can demonstrate fairness and a focus on the interests of the majority, many of whom have an instinctive scepticism about the benefits of wealth owners to society.

The First Step—Developing the Impact Goal Timeframe

Most of the planning that I have been asked to help families with over the years tends to be reactive. A change in a tax law affecting the family or a changing circumstance, such as a member of the younger generation moving to another country or getting married, triggers a review of the asset protection and succession plans of the family. What the *Theory of Change* envisions is that those involved in the planning process **start at the end**—where do we as a family, if it is a family doing the planning, see ourselves at a certain point in time? The approach is proactive and not reactive—the question is, where are we headed? If a roadmap is to be developed, we need to identify our destination.

In the context of the Apple family, maybe an appropriate date to set for developing the family's impact goal would be to project forward to when the parents, Reginald and Martha, will be in their 90s, so thirty years from now. That might be a time that reflects well the planning horizon of the family—they would like to ensure that, among others, Reginald and Martha are financially secure during their later years and retirement, and that all is set for a smooth transition to the next generation.

For the Bird family, planning might be somewhat more long term. The family business has been in the family for three generations, and maybe the family might choose a future date of fifty or sixty years from now for considering the family's impact goal.

In the case of the Crane family, an even longer-term approach might be appropriate. Some wealth and business-owning families consider things over decades; others think in centuries.

In the case of Dagland, and its hope to find ways to benefit its economy, a shorter-term focus, perhaps looking ten years ahead, would make sense.

Of course, the timeframes are rolling ones and can and should be adjusted over time. As steps are taken to put the plan in motion, the families and their business and investment interests will evolve. The *Theory of Change* can adapt, and the vision for the future will always change. And the same will apply for Dagland, the vision for which will evolve over time.

Developing the 'Impact Goal'—What Is Our Destination?

The *Theory of Change* contemplates having the stakeholders relevant to a project start the process by together clarifying long-term goals. In the context of a family and its wealth and business interests, this might involve family members participating in agreeing on the destination for the family, and then working out the pathways linking activities that might be needed to help the family reach its agreed destination.

The *Theory of Change* is both a process and a methodology, and has been used mostly in relation to social change projects. But there is much to be gained by families adopting the approach for their own asset protection and succession planning. The family can benefit from the process itself—working together to agree long-term goals and planning the journey to the destination by identifying and articulating the *inputs* and *activities* necessary to achieve the *outputs* and *outcomes* envisioned. The *Theory of Change* can provide a structured approach to planning that sets out a form of 'action list', identifies the resources that will be needed to reach success, and sets out ways to measure progress. Connections between resources and activities and the outputs and outcomes are identified and monitored.

So far, the Birds and the Cranes have worked out that their fifty-year vision for their families and their business and investment interests would be to have happy and healthy families that are supported by employees, partners, community and planet, and with an investment and business engine that runs on 'autopilot',[2] with prepared family members steering the way forward.

A bit more detail now, and maybe a bit more detail later, on the family ecosystems. In addition to an extreme balance between family and business, a similar balance between *I* and *we* can contribute to reaching the goal of having a happy and healthy family with family members well prepared for their roles. In many business and wealth-owning families, there is a neglect of the individual family member and the preconditions for his or her ability to become a confident and successful individual, in addition to their participation in the greater family. Having a part of the fifty-year vision focus on *extreme balance* here might therefore be of value.

Where the individual is truly independent, financially and otherwise, they may be better placed to commit to long-term stewardship of family assets. Creating this independence will again attract *activities* and projected *outputs*, all with a view to leading to the envisioned *impact goal*. More simply put, if the Birds and the Cranes want the next generations to steward their investment and business interests for the long, long term, maybe ensuring that each individual is fully financially independent and confident will help ensure an effective stewardship mindset and a commitment to the preparation for future roles that might be necessary.

The Impact Goal for Dagland

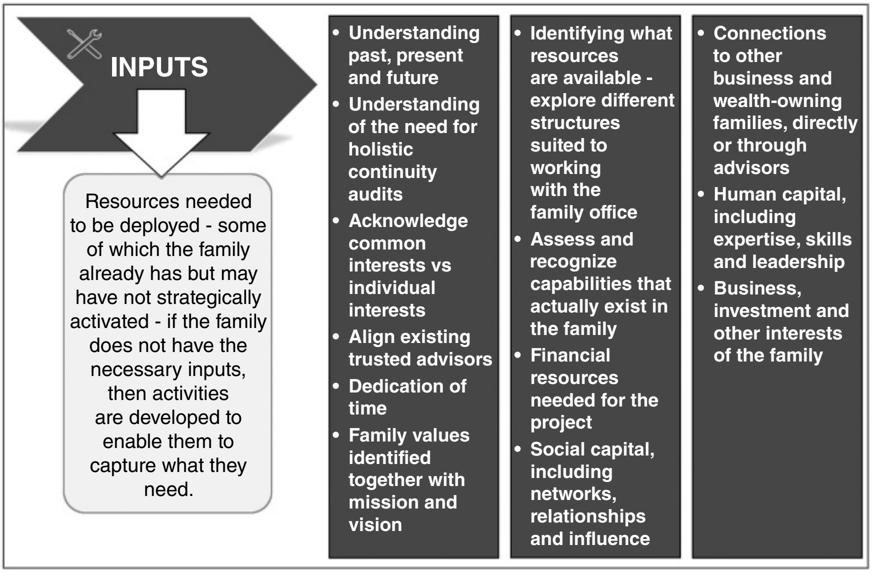
For Dagland, a country rather than a family, the *impact goal* will be different. Perhaps for now it might be articulated as Dagland, in a set number of years (say ten), having established itself as the country of choice for global wealth and business owners seeking not only a place of residence, but a place to establish holding companies and both non-operating and operating investment and management vehicles. Importantly, apart from the economic contributions wealth and business owners would be making by virtue of this activity, there would be taxing and related approaches in place that provide for a long-term synergistic collaboration between the country and wealth and business owners, including cultural and philanthropic leadership.

Taxing policies, among others, would seek to achieve, again, *extreme balance* between ensuring taxation that is fair, not only to the wealth and business-owning families involved, but to the overall population, addressing present and real income and wealth inequality, together with maintaining the country, with its focus on the rule of law and assurances that policies will not chop and change, as a destination of choice for well-advised wealth and business owners. How Dagland can develop a truly *regenerative* tax system that is focused on encouraging family-owned businesses and wealth is developed in later chapters.

A Snapshot of the Full *Theory of Change* Approach in the Examples

As mentioned earlier, developing a *Theory of Change* will involve laying out and developing on an ongoing basis the key elements and causal relationships that can show a pathway from where things are today to the *impact goal*—the positive outcome that is sought to be achieved. This will usually involve the creation of a diagram that lists, perhaps in individual boxes in a chart, the elements of each of the following.

Inputs and Resources



The starting point, of course, is the *impact goal*, which for now has been briefly described for each of the Apples, Birds, Cranes and Dagland.

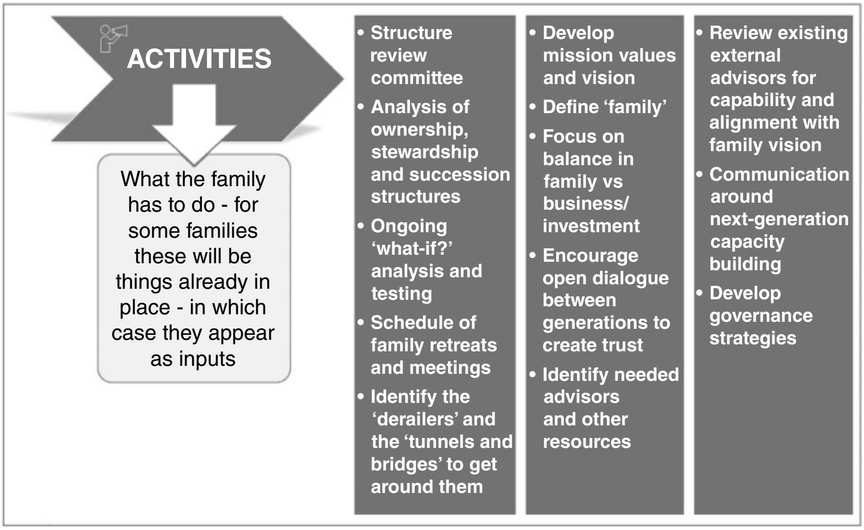
The *Theory of Change* then involves moving from the end—the *impact goal*—to the beginning. What *inputs and resources* are going to be needed? This sets out the resources—financial, human and otherwise—that will be needed to undertake the steps that will lead to the *impact goal*. This can include financial resources that may need to be dedicated to the project: human capital in terms of expertise, skills and leadership from the family and those supporting the family (or from Dagland and those involved in helping Dagland to develop the relevant policies); social capital in terms of networks, relationships and influence; and more. The inputs and resources will adjust over time, reflecting additional needs and also reflecting that resources, in terms of human capital, for example, will increase as efforts are made to build such resources within the family through activities undertaken as part of the *Theory of Change* and otherwise.

In the case of the Apples, the inputs and resources to be lined up at the outset might focus on Reginald and Martha—the older generation—making time available to dedicate to the planning process. The resources of the family might or might not include all of the younger generation contributing time and thought to the process. There may be a need for some financial resources to help the family, perhaps with the help of advisors, to identify some of the steps that may need to be taken to get to the impact goal.

In the case of the Birds and the Cranes, more substantial inputs and resources may be available and may also be needed. This might include existing advisors and more in the way of financial resources. Family values may already be well developed and be part of input and resources. If not, the development and articulation of family values might be part of the next step in the *Theory of Change*—an activity that needs to be undertaken, the output of which (the values) can then lead to a desired outcome (perhaps clarity for the family in their decision-making process, which can be based on family values), which in turn leads to impact and ultimately the impact goal.

For Dagland, inputs and resources might include identifying and mobilizing the right human resources, internal and external to the government, as well as the time and money that will be required to develop the theory of change and implement it. The inputs and resources will include what Dagland already has to offer wealth and business owners, but likely these have not been well identified. Doing so would then be part of the next step—the activities that Dagland undertakes towards the impact goal.

Activities



The *activities* that are needed are ones that are supported by the *inputs and resources* identified, and are designed to help achieve the ultimate *impact goal*. The activities become a kind of action list, helping the project managers, whether in a family or government context as in the examples, achieve the impact goal and ensure that the activities undertaken, which will be using inputs and resources, have the causal outputs and outcomes that will lead to the impact goal.

For the Apples, among the *activities* to be undertaken might be one or more family meetings to discuss the *impact goal* of the family and to have the *output* of a well-articulated plan that has as its *outcome* alignment of the family with the *impact* that disputes will be avoided and the ultimate *impact goal* supported. For the Birds and the Cranes, additional activities might include identifying advisors who can help the families create a schedule of family meetings, some focusing on family and others on business and investment interests, helping the family to move towards the extreme-balance objectives of their impact goals.

And for all three families, identifying and addressing the derailers will be key. The derailers are internal and external challenges to wealth and business-owning families—challenges that can derail the journey to the ultimate destination the family would like to reach. Divorces, dementia, family disputes, mistresses and paramours, fraud and more are among the internal challenges. Taxation, political risk, migration, climate change, changes in the political landscape, economics, markets and more are among the external derailers that need to be navigated.

To address the derailers, *tunnels and bridges* will be needed. The tunnels and bridges represent the planning needed to avoid the derailers. This brings into the picture the tools of wealth planning—trusts, foundations, partnerships, insurance strategies and more are all part of the tools that can help address the derailers.

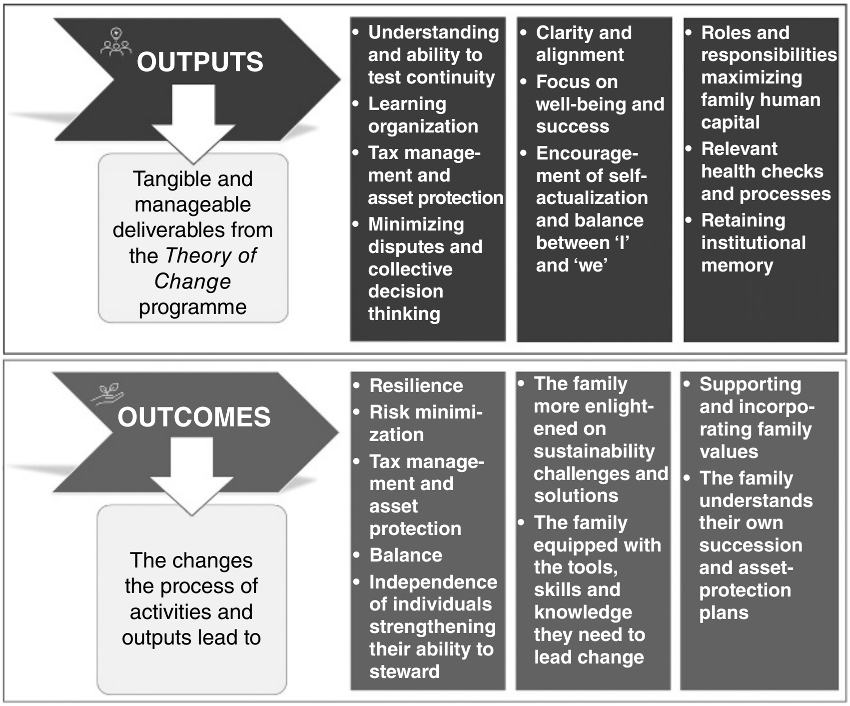
Communication and planning are part of the process, and this book will highlight a number of important planning opportunities that many families fail to take advantage of.

For Dagland, the process is the same. The *Theory of Change* leads to the consideration of *activities* that need to be undertaken, with a view to *outputs* and *outcomes*, leading to the *impact goal*. If the country is seeking to identify the right tax and other policies associated with attracting and retaining wealth owners to the economy, assembling the right group of experts and developing a thoughtful approach to the development of solutions that can be explored with stakeholders would be important. For example, part of the set of activities to be undertaken might be a benchmarking of other countries and their approaches to attracting and retaining wealth and business owners to their economies.

Outputs and Outcomes

The *activities* that are undertaken as part of the *Theory of Change* will have *outputs*, and in mapping the journey to the *impact goal*, predicted *outputs* are set out and then reviewed as *activities* take place. If regular family meetings to review the asset protection and succession plan are an activity, a contemplated output might be alignment of interests among family members and an improvement in communication.

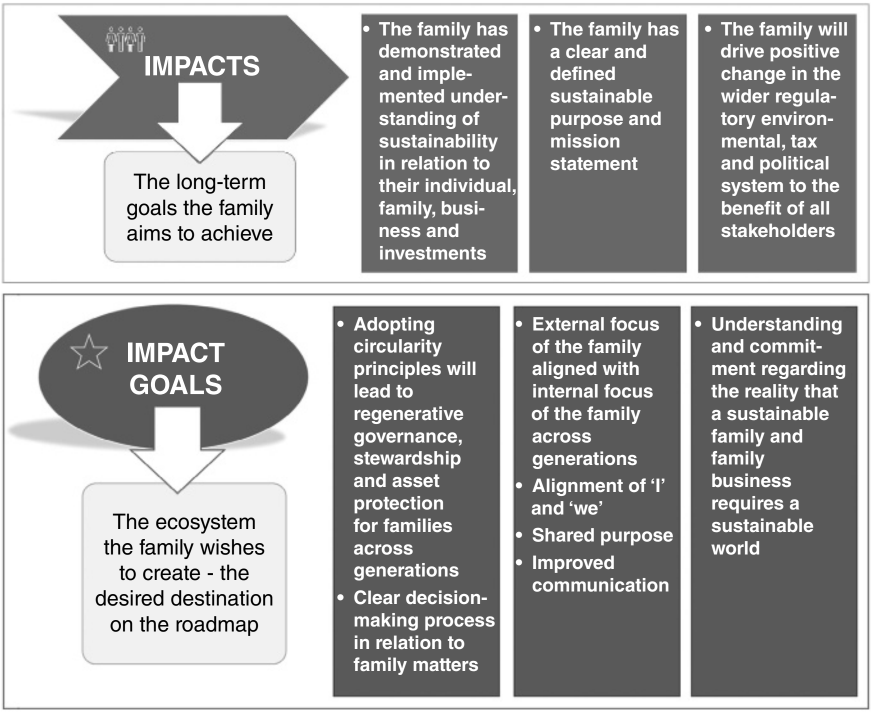
The *outputs* then lead to *outcomes*. The alignment of interests that are an output may have the outcome of family members having awareness of the planning in place and being equipped with the ability to consider and agree further planning approaches to be implemented to support the impact goal.



Impacts and the Impact Goal

Multiple activities will lead to multiple outputs, outcomes and impacts, and a well-developed *Theory of Change* diagram can show the causal connections that are expected. The collective of impacts achieved are all in support of the ultimate impact goal.

In the following chapters, I will use the *Theory of Change* as a methodology that can be employed. The key is to begin at the end—developing an understanding of the destination—the *impact goal* for the family or the government involved in the examples provided. The impact goal can and likely will itself evolve over time, and successful families will be adjusting their *Theory of Change* to take into account different and moving timelines. The steps necessary to achieve a 500-year vision for a family and its business and investment interests can be quite different from a ten-year vision. In the former, just the number of potential future 'family' members will be an important factor the family will have to plan for.



Notes

1. The diagrams that I have used in this book were developed with the kind and thoughtful help of Nicolette Fourie, the Chief Administrative Officer of Ispahani Advisory (https://www.ispahaniadvisory.com/the-team/leadership/nicolette-fourie-2/). I have worked closely with Nicky and her colleague, Iraj Ispahani, in teaching and consulting engagements involving the *Theory of Change* and the diagrams reflect our collective thinking.
2. Autopilot leadership is one of the many great ideas I have learned from Sammy Lee, in my view a top thinker on family business. Sammy is a fourth-generation member of the Hong Kong-based Lee family, with interests in a variety of sectors including the manufacture and distribution of delicious Chinese sauces and Chinese health products carrying the Lee Kum Kee and Infinitus brands. Sammy is Executive Chairman of the Lee Kum Kee Group. Among Sammy's writings are Lee, S., *The Autopilot Leadership Model* (McGraw-Hill Education (Asia), 2016) and Lee, S., *We Are Greater*

Than I: The Path to a Happier Life (Co-Creating Happiness Limited, 2021). I use many of Sammy's ideas in my work and writing, including in my development of his ideas on autopilot leadership and on the need for *extreme balance* in managing the interaction between family and business. As Sammy says: '*Discover the secret to sustaining wealth across generations: the art of achieving extreme balance between family and business.*'