Preparing Your Rising Generation to Sustain Family Wealth

By Dennis T. Jaffe, PhD

After a family business has been successful and the family has accumulated wealth, what happens next? The answer has less to do with the business climate and more to do with the preparation and commitment of the young family members who must take their places as leaders and overseers of the family's wealth. Will they be a creative force, adding to the family's wealth and legacy, or will they be the generation that uses up the resources? This article describes how successful multi-generational family enterprises prepare heirs for family leadership. It draws from the ongoing 100 Year Family Enterprise Research Project, which includes interviews with leaders from more than 70 wealthy families worldwide.1

This article focuses on how to help families of substantial wealth sustain wealth transfers beyond the third generation. It explores and elaborates on the key elements that have allowed some families' wealth to last for generations. We call these generative families, meaning that they have prospered economically and have developed a sense of family connection that has contributed to leadership and success across generations.

The Rising Generation and Sustaining Wealth

Raising children to become productive members of society is a challenge faced by every family, but a wealthy family faces additional complexity. The saying "to whom much is given, much is expected" starts to capture the challenge. Parents don't believe they created wealth so their children can spend it as fast as possible or be unproductive.

Sustaining wealth is one of the greatest challenges for legacy-driven generative families. Families of wealth need to educate and prepare their children and grandchildren for the responsibilities of growing and protecting wealth and assets, and for using the freedom and opportunities they have been given to make positive contributions to the world. Such education takes more than good intentions or a trust fund that restricts spending.

One of our key findings is that a generative family is anchored in two major achievements. First, the family has developed a successful business or set of family enterprises that spans generations and creates substantial family wealth. Second, after the family has generated this wealth, it commits resources, time, and energy to building a family that adapts over generations and has a strong sense of shared identity. The latter achievement is the focus of this article.

Money, or financial capital, looms large in the life choices of a younger-generation family member. As a family spans generations, the extended family defines the pursuit of capital more broadly than just in financial terms. This serves to unify and motivate the family to stay together, because money alone is not enough. For generative families, sustaining wealth requires the development of the following additional types of family capital:

- **Human capital**: Knowledge, skill, and personal dedication of each family member.
- **Relationship capital**: Connection, organization, and mutual support of family members.
- **Social capital**: Contributions to the family's community and environment.
- **Spiritual capital**: Commitment to a deeper purpose and a legacy of shared family values.

Expanding these types of family capital demands more than individual households in the family teaching their children. The many households that comprise the generative family need to work together—as a “tribe”—to create educational, service, and personal-development activities that will enable members of the rising generation to work together and develop skills specific to upholding and promoting the future of the generative family.

Families rise and fall, and a connected multi-generational family is rare. But generative families succeed because they develop an extended tribal community where the rising generation contributes ideas and creates capital of all types.

Thinking through Generational Differences

Consider the cultural differences among those who create wealth and those who are born with it. Many of the wealth creators we interviewed came from modest circumstances and are “immigrants” to the experience and use of wealth. They remember what they had to do to achieve their wealth. Their children and grandchildren, however, are “natives” to wealth. It has always been part of their lives and they are aware that they did not create it, which may create anxiety about what they would do if it were not there.

For a wealthy family with a rising third generation, it’s important to develop and affirm the values and purpose of the family's wealth. The family must answer the question “What is our wealth for?” in a way that engages the rising generation. Children...
The first step in fostering stewardship is finding a way to communicate about wealth. Consider this account from a South American family leader about the connection between communication and values:

*I raised my children to be leaders, and to live by the family values. We started working with the children, and therefore you begin at the beginning. Every single night we'd have a little chat. Communication didn't start when they started in the business. It started when they were age four or five, at the breakfast table or at the basketball court. We try to have dinner together every night. Every Sunday we would go to church. We would be together. I think that strengthened family values. My wife is great. She's the chief emotional officer. When you give people enough love and you respect them, they become secure.*

Values also are transmitted through example. A family’s work ethic and values often are passed down informally. When children are exposed to the business, they tend to absorb certain expectations before the expectations are explicitly laid out. Consider a Middle Eastern family leader remembering his introduction to the business:

*I was just invited to meetings since I was five or six. If there was something happening—a meeting happening on the weekend or I was on holiday—I would just get dragged along to the meeting. There were always guests at home who were business guests, and partners. So we spent a lot of time with them. You couldn't help but hear although you didn't always understand it until later on.*

A value is about a feeling, but it is also about having a clear idea of what the value actually means and the capability and commitment to do something about it. For example, generative families usually expect and require family members to work, but their definition of work is also usually flexible. One surveyed family considers jobs such as being a volunteer coordinator for a family charity as a form of employment that should be salaried. Another family developed what it calls the “Passion Project,” where each young family member is invited to develop a business—funded by the family—to demonstrate persistence and commitment.

**Developing Identity as a Wealthy Child**

Wealth provides inheritors an unusual amount of freedom to define themselves, but these privileges present challenges. The way a young inheritor integrates the presence of money and wealth into work, relationships, and choices is all part of wealth identity. If inheritors are not clear on what wealth means to them, they can be left with a muddled sense of purpose.

The status and recognition that come with wealth can lead to both a sense of entitlement and a feeling of entrapment or isolation.

Wealthy children too often grow up knowing only others like themselves. They are protected and they do not experience diversity; even with all their wealth, their life experiences can be limited. Entering college may be the first time they are forced to manage their own affairs. What’s more, being associated with wealth may make individual family members feel uncomfortable. In our research, several heirs have noted it was important for them to conceal their family wealth from peers; one even changed his name when he entered college to disassociate from his family’s donations. Inheritors can experience guilt or feel that they do not deserve their wealth, making it hard for them to develop positive wealth identities.

Knowing their lives are subsidized, how does the rising generation in wealthy families develop motivation?

In order for the rising generation to motivate, family elders must learn to let go and allow young adults to find their own way. Young people develop quickly when they feel they have resources and support and that they are also expected to fend for themselves. When young people struggle, they learn. Parents who are rescuers protect their children from negative consequences and also prevent their children from learning. In fact, rescuing young adults from any difficulty can lead to a cycle of co-dependency. When a young person
emerges from a journey having developed a unique skill set and a stronger sense of self, that person is better prepared to become involved in family ventures.

Talking about wealth can be difficult for parents and their children, so it’s important to keep lines of dialogue open as the rising generation finds its way. Parental engagement is tricky at this stage, but a parent should find a way to be in regular contact and act as a sounding board for some (not all) experiences. Being available to talk about issues a child is having also creates opportunity to pass down family values.

Extended Family Learning and Development Activities
A generative family business needs to offer opportunities for members of the rising generation to decide how they want the family legacy to be part of their lives. The success of a new generation in a family business begins with the sense of community built into the family’s shared values and collective activities.

Consider a young third-generation member from a family with a large global business. She grew up barely knowing her cousins who live in different states. She didn’t seriously consider a specific role in the family business. It’s not that she wasn’t interested; it was just never on her radar. When she was about to start high school, the extended family held its first annual family retreat, where she learned about the family business and decided she might like to study business and have a role in sales and marketing. She was delighted to take a course with her cousins about budgeting, household expenses, and credit cards—topics she had thought little about because her parents paid for everything.

Creating family community does not happen in a single event; it is a process that develops over time, especially after a family event such as a death or other transition. Sometimes a family visionary needs to help inspire, guide, and develop a cohesive family connection through events and gatherings.

One prominent feature of these intergenerational gatherings is sharing and telling family stories. Older family members should be invited to talk about their experiences and family members can use drawing, writing, video, or even social media to record these stories. By sharing the family legacy, young people are able to build upon it and develop community within the family as they look toward their futures.

Getting together as a generational community also offers an opportunity for members of the rising generation to come together and make requests of the elder generation. For example, several families interviewed noted that after a meeting among themselves, the younger generation became comfortable sharing concerns with their elders. Sharing concerns as a group rather than as individuals added credibility that their ideas and input would be heard.

Sharing Business and Financial Information
Family business leaders and trustees are traditionally reluctant to share business information with family beneficiaries and the rising generation. But the family members we surveyed suggested that this tradition neglected the development and engagement of the rising generation. If they were not informed, how could they learn about the legacy and prepare themselves for possible roles as owners of the business or stewards of the wealth?

The key element of this exchange is transparency of business and financial information. Not everything needs to be shared, but preparing the rising generation for stewardship means they need to know what they will be responsible for. This is about knowing the nature rather than the extent of the family wealth, developing an emotional connection to it, and developing a desire for the skills needed to oversee, sustain, and even add to it.

Generative families should hold some variant of an annual business meeting where family members of all ages are invited to attend and learn from the family’s business and financial leaders. These annual events may be traditional one- or two-hour presentations, yet many families have found creative ways to make them more interesting, elaborate, and interactive. Some meetings include on-site visits to businesses, family offices, or foundations and meetings with key employees.

Creating Opportunities for the Rising Generation to Build Human Capital
The larger and longer-lived families in our research developed custom-built educational programs to help build human capital. These programs go beyond the simple sharing of information to actively developing leadership skills by teaching the specifics of stewardship of any enterprise: leadership, relationship, and financial skills.

Another way to build human capital among the rising generation is through mentoring and career development. These help prepare an individual for one’s career of choice and develop qualified family members for part-time governance roles.

Spending time together across the family business can help people feel comfortable reaching out and networking, especially when there’s an opportunity for the younger generations to learn from the older ones. Creating connections across generations can instill a greater sense of responsibility in the rising generation. One outcome is that they may be concerned that they don’t measure up, and in turn make more effective career and life choices.

Defining and Heeding the Call to Service
“Find your passion,” parents instruct their children. This is no less true for members of generative families, who may have opportunities to find that passion within the family business. Each new generation is expected to add to the legacy, grow the many forms of family capital, and make its own mark in the world. To do so, each new generation must heed the call of opportunities within the generative family.

However, because of the family wealth, the rising generation may hear rival calls. Young people can work outside the family business or start their own businesses. They may not need to work at all. Competing opportunities
may not be enough to entice the rising generation. There must be an outstanding offer that makes it attractive for young people to build on the family legacy. They must be told that, by virtue of their membership in the family, they have the opportunity to do something extraordinary.

Mixing business and family is complicated. Individuals need to determine for themselves whether they will heed the call to enter the family business, but families also need to decide which members of the rising generation are right for the business. In other words, entry into the business should not be by open invitation; it should be conditional on professional qualifications, and the bar for entry can rise higher with every generation.

By the third generation, legacy families often have created a clear separation between the business and the family. Each has its own culture, policies, and practices; and membership in one does not necessarily bring membership in the other.

Serving the Community
By the third generation, a generative family often focuses its energy beyond simply creating wealth. The question “What is our wealth for?” takes on a new urgency. In response, many families have created a focus on family philanthropy to support their communities and other organizations that hold special meaning to the family.

Many young people today are dedicated to social innovation, sustainability, and service. Children from families of wealth may have advantages that help support their desire to serve, such as a built-in family network and the opportunity to participate in the family’s philanthropy. In addition, the rising generation may be able to take on a role that doesn’t offer a high salary because of financial support that may be available through the family enterprise.

Consider a family whose business, recently sold, was located for more than 100 years in a small town. Without the legacy business, the family was able to renew its connection for another generation by developing an extensive philanthropic commitment:

We started talking about the importance of philanthropy as one way to keep a family together. Out of one of those meetings came the genesis of what is now called the Community Fund. A few of us got together and we raised $10,000 when we passed the hat amongst our generation. It focused initially on kids at risk and we’ve made the mission a little broader as we grew. … The only requirements to be on the board were that you have to give a little money and you had to be willing to contact organizations that applied for grants to learn more about them, write that up, make a case why you should support that particular organization. … This led to a lot of people who didn’t have a lot of connection coming back to the larger family. This process has kept our family together for at least another generation.

How to Develop Cross-Generational Collaboration and Development
Generative families are inspirational role models of possibility. If your family is moving into its second or third generation, what can be learned from its experience? Your family can take the following key steps to implement positive programs to engage and develop the rising generation:

Convene the next generation. As families disperse, by the third generation cousins may have limited time with each other, and the business may be something in the background rather than a daily reality. A generative family has to actively bring together the members of each generation so they can get to know each other, learn together about various family ventures, talk about basic values and a vision of the future, and see the meaningful roles on offer in the family enterprise. There must be enough time for formal and informal learning, and for the older and younger generations to get together on their own and together. This is a time of community building and creating a reality for the family enterprise in the lives of the younger generation.

Design a future that combines legacy with new vision. The values that guided the founding generation are important, but if the rising generation cannot contribute, these values risk obsolescence and irrelevance. The family must celebrate its achievements in the context of the future. The rising generation’s concerns need to be incorporated into the family’s new vision. Indeed, each generation creates a new vision and adopts the legacy values that have guided the family in the past.

Create meaningful opportunities. The family must clarify the opportunity it offers the rising generation rather than rules and obstacles. The family should talk about family business roles and the talents and skills required to occupy those roles. Each young person (and maybe some older ones as well) then can meaningfully plan and work toward achievement.

Your Family, Your Decisions
Inspiring and guiding your family as you continue to evolve as a generative family can be a difficult but gratifying process. Promoting sustainability and preparing successors are complex tasks that are part of an ongoing, multi-step process. When considering your own family business, it can be helpful to have clear guidelines that apply to all phases of the process. A family that has been given much will succeed when the family’s individuals fulfill their own expectations and purpose.

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Endnote
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