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Next Generation Engagement: Steward or Consumer

By Succession Advisors

A Story...

We once worked with a family whose net worth was just under a billion dollars. The patriarch was married with three adult children in their 20s and 30s. He arrived as an immigrant to the United States when he was 18 years old and immediately started his first job as a taxicab driver. He grew up in poverty on an Eastern European farm. He showed us a black and white photo of himself as a toddler holding what he played with as his *toy* back then – a farm chicken. He was raised with nothing, yet he developed the mental fortitude, initiative, smarts, and wherewithal to conquer life's hurdles and achieve the American dream.

Now, almost 40 something years later, as we sat for a meeting in his conference room, he asked, *"How do I teach my children to work hard and not just rely on their trust funds? It's not as if I can drop them down in my home country and tell them to make their way."* His children had never known anything but extreme wealth. They had grown into young adults in one of America's wealthiest zip codes and had never held a paying job in their lives, yet they enjoyed all the riches their parents had worked so hard to provide – the mansion, the yacht, the cars, vacations, you name it. They had never encountered any hardship and, their father feared, never had the kinds of formative experiences that build resilience. These concerns are ubiquitous among families of significant wealth.

The Challenge of Wealth

For families of means, wealth is a double-edged sword. On the one hand, it provides a comfortable life for their children, giving them access, opportunity, and advantages unavailable to most people. On the other hand, it threatens to stifle their children's ambition, self-reliance, and capability to make meaningful contributions to society in their own right.

Everyone agrees that adversity builds character, but children born into significant wealth rarely experience a lack of anything. Instead, everything is available at a much grander scale or in excess. Consequently, they normalize this and become entitled to it. They never had to work for anything and believe they'll never have to; because everything is available to them, there is no felt need to do anything to earn it. They are *consumers*.

While there is nothing shameful in having a life of privilege, it does deprive children of the experiences that typically motivate personal development and active engagement. That's why, when we hear of Kylie Jenner reaching billionaire status, we are mildly impressed because we know she was born into substantial wealth and given all of the advantages in the

world. Contrast that story with Sarah Blakely's success story. Before 2012, when the founder of Spanx landed on *Forbes*' list as the youngest self-made female billionaire, Sarah was working at the same office supply company where she first started. She spent two years and $5,000 of her savings to develop Spanx while selling fax machines door to door.[1] Let's be clear; these are both success stories. However, one was arguably propelled by extreme privilege, while the other was achieved through true grit.

Grit is defined by having a commitment and passion for something *while maintaining that commitment long-term and in the face of adversity, failure, and challenge*. When you are given everything without earning it through your own efforts, you're deprived of these opportunities to develop self-identity and purpose. So, how can children of families with significant wealth learn to commit to a goal, persevere, and realize their potential?

Have Your Cake and Eat it Too

Great wealth is not necessarily incompatible with raising engaged, productive, purpose-driven children. Children can learn to view their good fortune as an opportunity to be *stewards*, not merely consumers. However, it takes work. It is never too late to start, but, as with most things that take time to develop, it's best to start early. By the time a child reaches adolescence, years of negative habits and ways of thinking have already cemented and will be challenging to overcome. Still, success is possible, though it's a process requiring time, resources, commitment, patience, and effort – by parents *and* children.

The first prerequisite to success is the next generation's willing participation. If the goal is to cultivate internal drive and lifelong learning, it's counterproductive to force anyone to behave or act a certain way. Sustaining drive, discipline, and the will to work for the benefit of a larger group or cause beyond oneself is a never-ending journey. It can only begin if everyone involved is present of their own free will.

Wealth Education: What's In It for Me to Move Towards We

"What's in it for me?" To encourage proactive engagement from the next generation, it helps to tell them what's at stake. After all, when you have skin in the game, you are more likely to care about its outcome. However, because

[1]Clare O'Connor, *Spanx Inventor Sara Blakely on Hustling Her Way to a Billion-Dollar Busines; Forbes* (October 2014).

most wealth creators worry that their children's awareness about a future inheritance or even an existing trust fund would undermine their ambition, they withhold that information. But keeping children in the dark about their financial circumstances does more harm than good.

A lack of transparent communication creates an environment of distrust among family members, which can be detrimental to family relationships and, ultimately, the family enterprise. And, because children will make assumptions in the absence of information, keeping them in the dark may have unintended consequences. For example, a wealth creator may hide the details of the estate plan from her children because she believes that if they don't know what they're getting, they won't rely on their inheritance. However, her decision to obfuscate may backfire, fueling her worst fears. Children of wealth *know* they are rich and assume they will inherit their parent's assets. After all, their parents have supported them their entire lives, so why would that change?

Raising responsible stewards necessitates educating them on every facet of the family's wealth; this means sharing all of the details of the family enterprise, the estate plan, and its impact on your loved ones – in simple terms, tell them *what's in it for them*. While this may seem counterintuitive, it enables you to control the narrative and, if necessary, change the plan.

Furthermore, if you want your children to pursue a calling of their own and commit to stewardship, the education process should encompass more than the technical details of family wealth. Without a doubt, the next generation needs to understand the family's *financial capital*. They need to master income statements, balance sheets, cash flow, taxes, investment returns, liquidity needs and credit, the family business or foundation, and other privately held entities, such as family partnerships and trusts. However, the family's *human* capital deserves equal attention.

Human capital focuses on the development of the "family" in family wealth. It encompasses educating family members to communicate effectively, make informed and collaborative decisions, resolve conflicts constructively, and run effective family meetings. These capabilities nourish family relationships because they foster trust and fairness, supporting wealth *sustainability* across generations.

The skillset needed for cultivating human capital is somewhat different because it's less intellectual and more reliant on emotional intelligence. Activities such as making decisions collectively and resolving disagreements require us to be mindful of our communication styles, habits, and personal biases and how these characteristics may affect the group dynamic. For family members, mastering this type of self-awareness can be particularly challenging because ingrained family scripts and history can trigger powerful emotions and hypersensitivity that would never arise in a non-family or business context.

Some families find that workshops can help them hone their emotional intelligence. Workshop examples include:

- Identifying core values and a shared purpose, leading to a long-term vision and mission or family values statements
- Understanding communication styles and personality temperaments
- Producing and sharing a formal written or oral family history
- Designing a decision-making matrix that defines what and how decisions are made and by who
- Sharing individual stories and experiences with money, thereby giving insight into how personal history shapes a family member's view and relationship with wealth

You'll notice that none of these workshops focus on the technical or legal details of the family enterprise. Instead, the workshops center on the family members themselves, strengthening their bonds and commitment to one another. Ideally, families gain a new appreciation for each member's unique voice and valuable contributions that, if harnessed, support the growth, preservation, and sustainment of the family's financial capital. The goal is to move the spotlight from individuals and what each stands to inherit ("What's in it for me?") and redirect it to the larger family enterprise as an ecosystem unto itself.

A Foundation of Stewardship

Stewardship is defined as *the responsible management of something entrusted to one's care*; it is an ethic that embodies careful planning and management of resources. But before someone can shoulder the responsibility of preserving and sustaining existing wealth, they need an identity apart from it. And research shows there are pressures associated with being raised in an environment of generational money that can negatively impact the full development of personal identity separate from the wealth itself. These stresses include lack of intimacy and contact with parents; parents using money as a tool for control; isolation and distrust of others; feelings of entitlement combined with fear of loss of wealth; dependency and lack of knowledge; lack of motivation for career or life purpose; and anxieties about continuing or fulfilling the family legacy.[2] Recognizing these stresses and responding to them with open family communication, continuing wealth education, and process planning can give the next generation much-needed support.[3]

[2] Dennis T. Jaffee and James A. Grubman, *Acquirers' and Inheritors' Dilemma: Discovering Life Purpose and Building Personal Identity in the Presence of Wealth*; *The Journal of Wealth Management* (Fall 2007).
[3] Process planning is a concept in product manufacturing and consists of defining the sequence of steps that should be taken from design to production. Here, it is used to describe the sequence of steps a family takes to reset the next generation mindset from wealth consumption to wealth stewardship.

In their role as stewards, there are multiple ways for next-generation family members to contribute to the family enterprise. We recommend establishing an educational and personal development plan built around the next generation's interests – not the wealth creator's – to encourage *intrinsic* versus extrinsic motivation. Inherent in stewardship is the commitment to a lifelong practice of responsible management of resources. Lifelong learning cannot be forced through promises of external rewards. Instead, the drive has to come from within. When you empower the next generation to dictate their learning journey, you cultivate intrinsically driven behaviors that connect back to stewardship.

To engage the next generation, meet them where their interests lie. For example, do they want access to information such as the family's business financials and long-term strategy or more decision-making authority in its decisions around charitable giving policies? Perhaps it's learning about the family's investments, impact and sustainable investing, or even entrepreneurship? Maybe they'd like to start a new business venture of their own—with or without using family resources. Whatever it may be, see if you can support their passion with educational and personal development resources. You'll also want to bolster their financial capital skills (e.g., budgeting, investments, cash flow, taxes, credit, etc.) and human capital (e.g., policymaking, critical analysis and group decision making, collaboration and conflict resolution, goal-setting, etc.). Regular family meetings typically serve as the forum for conducting these activities and executing the plan.

In sum, all parents want the same things for their children: health, happiness, and security. They want them to have thriving family relationships and give them opportunities without robbing them of personal agency. While wealth may confer many advantages, it may destroy others unless care is taken to create an environment that informs, educates, and encourages them. Once they understand what's at stake and why they should care, they can assume the great responsibility that comes with ownership and shared family wealth. While it may feel risky to be transparent about your family enterprise and partner with the next generation to steer its future, our experience suggests that it is by far the best option. Indeed, it may be the only viable one.