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Teach the Children Well

In this month's article, "Teach the Children Well", author Anne K. Hargrave tackles one of the most common challenges faced by many wealthy families: how to effectively educate younger generations about the responsibilities of managing their wealth. Anne K. Hargrave is a partner at Wealthbridge Partners, LLC, a Washington D.C. firm that designs customized educational programs for families. This piece was published in the August 2004 Trusts & Estates magazine.

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Leaders of families with substantial wealth - \$50 million and more- are worried about the future. One of their greatest concerns is whether their children and grandchildren have the right values and competencies to make important decisions about the family's wealth. Everyone has heard stories of families that go from riches to rags in three generations. Leaders not only want to preserve their hard-won legacies, but also fret about their wealth's impact on relatives, people outside the family and the community. Often they say they'd be more confident in their family's ability to sustain, grow and handle wealth if they knew that descendants, spouses, business partners and advisors shared a vision of the future and had some clear understanding of how to get there. The answer is education. The problem is finding a program that not only sounds good but actually works.

Of course, until recently it was taboo even to talk about the impact of having significant wealth. But in the 1980s, as industry mergers created behemoth financial institutions that lost their ability to provide comprehensive, personalized service to wealth owners, family offices began to flourish. Organizations such as the Family Office Exchange and the Institute for Private Investors formed in the late 1980s to provide venues where wealth owners could compare notes about effective management of financial assets. For many years, dialogue focused principally on investments, tax strategies and how to work with advisors.

Then wealth owners began to realize that their financial assets were at risk from the most difficult problem of all: uninformed inheritors. Conversations turned to the fear that all of the tax, legal and financial planning in the world couldn't hedge against the risk of poor choices by people who didn't know any better.

Owners started trying to engage their family members in the conversation. Family meetings became de rigeur. These gatherings frequently focused on family office services or provided a setting for the family's lawyers, investment managers or other professionals to explain what they did for the family and why. Talk about the technical aspects of wealth ownership revealed a need to help family members gain greater competency so they could make more effective personal and financial decisions.

Financial institutions recognized this shift in consciousness and, in the mid-to-late 1990s, also started holding education sessions designed to explain their services and demonstrate depth of knowledge about issues important to wealth owners. At the same time, family leaders started their own education initiatives, putting lawyers, consultants, and investment professionals in front of the family to discuss strategies and philosophies.

The intentions are good. But, increasingly the industry is realizing that, while the advisors may impart important information, family members still are not gaining the knowledge and skills they need to integrate into daily decisions. Family members walk out of sessions complaining that they don't understand what was said, or see how the information is relevant.

Why has teaching the wealthy about the implications and responsibilities of money been so difficult?

At the most basic level, education initiatives often miss their mark because "class" isn't held frequently enough. Typically, family meetings take place every other year in beautiful settings: at resorts, in vacation homes or city locations. Presentations about family business, foundation or investment issues are scheduled with activities that allow family members to enjoy each other's company or do a community service project together. The meetings are intended to impart information and gain consensus on activities managed by others-but not to develop new skills in family members.

Some families are getting serious and adding a new type of meeting to their agendas. On top of the social occasions and strategy sessions, there are the education summits. The family convenes three to four times a year for one to two days at a time in conference rooms. Content is delivered during a number of sessions. Groups meet as siblings (often with parents), cousins and peers from various families. Between sessions, participants do homework and work individually with faculty to apply content.

Despite all this effort, a host of difficulties can doom education initiatives. Often there is resistance from the students-and sometimes even from leaders who launched the program. The timing of the education efforts can be off. Programs may be more oriented to selling services to families than to educating them. Then there are good programs, but the subject matter is out of sync with a family's needs and priorities. And even when everything else is right, the educators themselves can be dull or ineffective.

Here's how to identify some of the obstacles-and surmount them.

THE RIGHT ATTITUDE

It's critical that family members buy in. An education program viewed as an unnecessary expenditure of time and money will fail. It must be seen as an investment in intellectual and personal growth. It's best, therefore, for a program to be based on the family's concerns and approved by all family members or an education committee before being implemented. Delivery of information also is critical. Speakers who focus on pathology, the problems in families of

wealth, spark a negative reaction. Instead, discussions need to focus on what needs to be done to nurture intellectual growth. Discussion, even about the most personal matters, such as prenuptial agreements, should be kept up-to-date, impersonal and lively. For example, one family decided to focus on love and money. Family members were asked to be actors in a four-act play set in the days before a wedding. This role playing set the stage for the family members to experience and discuss the emotional, financial, and legal implications of signing, or not signing, a pre-nuptial agreement-without the emotional complexity of having to deal with their own situation.

Creative programs are always better received than talking heads. Field trips offer real-life exposure to different types of businesses and foster an entrepreneurial spirit in young adults. Site visits to nonprofits help in grant-making decisions. Leadership and succession planning decisions are better made after gaining a better understanding of leadership styles, roles, and opportunities-in the abstract and reality.

POWER STRUGGLES

Sometimes owners inadvertently play a game of “push-me, pull-me” with their families. They start education programs and push the younger generations into them to encourage competence. After the learning process begins, the younger generations (whose members can be 40 to 50 years old) often begin testing boundaries by asking questions about estate plans, leadership succession, investment strategies or foundation mandates. Then the leaders balk, pulling back from an initiative that empowers others. So family members get excited about the sharing of information and decision making-only to be disappointed to find that there wasn't a real willingness to let them in. The emotional issues in this dynamic are scary and very quickly cause individuals to lose interest: They don't want to tackle the underlying power issues in the family. It's easier to go on with one's life and try to ignore it all, or just complain and make no effort to cause change.

For example, one family began holding bi-monthly meetings to set up a family office and foundation. They hired investment, legal and philanthropic professionals to work with each of seven households. The family formed an education committee and brought in guest speakers to share the mistakes of other wealthy families, hoping to avoid problems. They all learned the importance of planning for succession from the first to the second generation, and of the second generation engaging in shared decisions. With a \$500 million foundation to manage and significant businesses to operate, the second generation was chomping at the bit to take control. But the patriarch wasn't ready to let go. He would agree to let his children participate in decisions, but then he would decide alone, without letting anyone know what he'd done. The lack of cohesive leadership and coordinated planning resulted in poor decisions that cost this family over \$80 million.

The only way to guard against such problems is to share this and other cautionary tales with family leaders. Work closely with the leaders developing education programs so they are invested in teaching the next generations. And provide leaders with emotional support to help them let go of the reigns just a little.

TIMING

Families may unwittingly pick the wrong time to start an education initiative. Few can pay attention in class when there are such serious distractions as divorce, significant illnesses, or the deaths of key family members.

It's best to avoid launching any significant initiative until six months to a year after a distracting event. Then it's helpful to have some classes on family dynamics, enabling everyone to learn together effectively and to understand what individuals experience in transition times.

MARKETING FLUFF

Families who educate primarily through seminars offered on a one-time-only basis by wealth management firms often are frustrated when they realize that the primary purpose of such gatherings is really marketing. The financial institution wants to demonstrate its knowledge so that families will hire them to manage assets or expand the relationship. The topics may be relevant, but they are not necessarily designed to build competency in a given area over time; they also may fail to address the family's specific concerns. Family offices understand the value of education and their client's priorities, but they often don't have the contacts or resources to develop a sophisticated, relevant and creative program.

It's usually better to have a custom program that focuses on what the children need to learn and how to teach them—with a plan of action for each child that changes as the child matures. Group education, with individual coaching between meetings, allows family members to share experiences and solve problems as they come up.

AN ORGANIZED PLAN

Families that thoughtfully prioritize learning topics and identify dynamic speakers often find that their programs fail because they haven't articulated among themselves the desired outcome. Also, without clear benchmarks for success it's difficult to evaluate any program's worth. It is important to know that family members have retained information, that they have been able to assimilate it into their thinking, and that a framework for addressing the issues facing the family is being established. After-class follow-up interviews are essential to evaluate what's been absorbed.

The results of having or not having a plan can be dramatic. A west coast business-owning family held meetings twice a year for five consecutive years with speakers on topics ranging from how to set up an effective allowance program to the basics of being a member of a board. The programs were interesting, but scattershot and incoherent. As the second generation began dealing with teenagers, they discovered that the family had collectively raised a third generation unqualified to sit on the business board, unable to be dutifully employed, lacking personal passions and

willing to spend, spend, spend. The third generation expected money to save them from having to work, to buy them out of problems, and to pay for others to handle their responsibilities.

On the other side of the country, another family deeply felt the change when the sale of a business created substantial liquidity. The second generation realized that they needed help because they were overspending, losing long-time friendships, investing in businesses that failed, struggling to work together to manage jointly held assets and making poor advisor choices. They hired a facilitator to evaluate the family members' knowledge of financial matters and to provide perspective on all the familial and economic transitions that would occur in the near and longer term. The facilitator benchmarked the data against the knowledge of hundreds of families with similar high-net-worths. The result was a three-year plan for educationally oriented meetings and coaching. The family decided to focus on learning in three areas: investment management principles, raising financially fit children, and leadership/succession planning. After three two-day sessions they were amazed at how much they had learned about the topics and about themselves.

CORE COMPETENCIES

There is a continuum of learning required for individuals to be competent to effectively manage the legacy of their wealth. Children as young as five can learn basic financial skills and gain self-confidence and resilience. Before college, they should know how to save, spend wisely, earn and talk about money. Later, they can learn how to work with advisors, manage romantic relationships, be philanthropic, and develop entrepreneurial skills. If young adults understand the implications of money and relationships (platonic or romantic), before loan requests or prenuptial agreements come up, the chance of a successful outcome vastly improves. By identifying the core competencies needed in each stage of life and delivering the content in the same manner as building a house, the foundational principles can be taught over time to adolescents or quickly to the more experienced adult.

Parents who have carefully thought through and articulated the values they care most deeply about raise their children in keeping with those values. For example, parents who value work (whether paid or as a volunteer) and education will guide their children through their early years so that they are able to make life and career choices grounded in those values. On the sadder side, parents who value making money above all else, social status, material possessions and competition will raise children who struggle with the purpose of their lives. These skills and knowledge are not taught in schools or learned through work. They are, however, essential to developing the potential of each person and reducing the risk of poor choices in the face of wealth. Through creative content specialists, parents can learn important skills to guide their children to prepare for inheritance, adults can gain competencies to hire and work effectively with the right advisors, and individuals will have a greater understanding of the implications of their choices in advance of making them. Creating financial literacy requires thoughtful, consistent and engaging efforts. Multiple sources of materials and delivery methods are very helpful.

Increasingly, families of wealth are realizing that the greatest risk to their financial assets is the individuals in the family itself-not the investment management or legal strategies they adopt. It's the family members who make choices on a daily basis, whether or not they have assets at their disposal, that put the family's overall wealth at risk. By proactively recognizing the importance of developing core competencies in each successive generation, that risk is substantially reduced. The skills needed to develop financial literacy create a foundation of competence and self confidence that spill into all areas of one's life. Done right, the family's wealth and the family members themselves are free to flourish.