



WE SAT DOWN recently to discuss some of the paradoxes of maintaining a healthy, wealthy multigenerational family, and to articulate some thoughts on how to address these paradoxes most effectively. It's no wonder that managing wealth successfully is such a challenge. Here is a sampling of the contradictions involved, along with some thoughts on how to resolve them.

The paradoxes

- **The values, attitudes and skills required of the senior generation to transfer power stand in sharp contrast to the skills that they relied on to create the wealth in the first place.** Business acumen is not enough to found a multigenerational family that will avoid the curse of “shirt-sleeves to shirtsleeves in three generations.” You also must sow the seeds of a successful family. These skills, and the circumstances around their application, are very different. At some point, someone in the family—an “enlightened leader”—must encourage family members to turn their focus from what has brought them much attention and gratification (i.e., the active creation of wealth) to include something much more subtle and abstract: enhancing well-being, nurturing creativity and cultivating the skills of individual family members. The founder of one family’s business commented that as a businessman he was “used to making decisions and not pondering,” but when striving to engage his family in growing their human capital he was required “to ponder”—and he didn’t like it!

- **Family success—and the long-term productivity of family wealth—ultimately resides in the actions of descendants and beneficiaries, not in the success of the founding entrepreneur.** For wealthy families to succeed beyond a single generation, new skills, values and

attitudes are necessary. As noted above, these skills stand in contrast to those required to build the wealth in the first place. Occasionally, successful wealth creators develop the skills themselves. Sometimes their spouses fulfill the role successfully. But more often, to earn the title of Generation 1 (G1), the wealth creator trains himself or herself to create room for the new and different skills of the children and grandchildren. These succeeding generations develop a framework for working as a team. Spouses and their histories, interests and talents are absorbed and empowered. The growing number of branches within the family nurture common interests as well as independent paths. Paradoxically, all of this must be managed and governed via processes of personal growth, education and consensus building rather than through authoritarian leadership and hierarchical control, which in all likelihood contributed significantly to past successes.

- **To stay wealthy, each generation must become risk takers and wealth creators.** Assuming that G1 put in place a generous estate plan, G2 and G3 are already wealthy but may be less experienced. They are not only inheritors but also fiduciaries for siblings and cousins. They have a lot more to lose financially and psychologically than their predecessors. Consequently, they should have different risk profiles (and lower risk tolerance) than the G1 entrepreneur. Yet the “leakages” to that wealth due to spending, taxes, fees and a generally growing family, plus the insidious value erosion from inflation, dictate that each generation must re-create the wealth to sustain their financial good fortune. They must put it at risk or it will dissipate. This is simple mathematics. The more you spend and the more quickly your family grows, the greater the risks you must take to maintain your wealth, and the more skill that is necessary to do so. Hiring someone else

Managing paradox

Entrepreneurial stewardship is the key to perpetuating family wealth through multiple generations. Risks and contradictions abound.

By **Stuart E. Lucas and David Lansky**

to manage your assets in financial investments may slow the burn, and it is definitely the right decision for some. But financial advisers aren't likely to add enough value to sustain your wealth over the long run, net of all those leakages. Long-term wealth creation is tough to delegate.

- **Spending capacity demonstrates power in the short run; savings capacity sustains it in the long run.**

Wealthy parents have a propensity to try to control their children through the purse strings. Ironically, in so doing they can *undermine* the long-term power of their wealth. As we just stated, growing leakages make it harder to increase wealth. Exerting power through purse strings can have other negative effects as well. Productive discussions of goals, aspirations and ideals of the donor *or* the beneficiary may be supplanted by counterproductive negotiation over money. In addition, giving money as a cure for bad economic decisions may actually encourage further bad decision making. At unhealthy extremes, these negotiations may be subject to manipulation, or worse. Rather than exerting power through the purse strings, multigenerational families are better served by building personal relationships, growing their human capital, conserving financial capital and focusing on allocation and managerial skills to preserve and grow their family and its wealth.

- **To keep a family together, it's best to set its members free.** To remain family, it is necessary to celebrate multiple paths to success, many of which do not create significant financial wealth. We are most likely to flourish if we can succeed at what we do best. Wealth gives us the luxury of choice; we should use it. In turn, as we flourish and feel supported, the energy we have to reinvest in family is likely to be productive, not indifferent or divisive. We know from our experience with hundreds of business owners and their families that even when up-and-comers in the

family show promise as wealth creators, it is a mistake to invite them into the family business too soon. It's good for them to gain experience working in other organizations and building their own tool sets and self-confidence without the added complication of being a family member. Moreover, in this manner they aren't putting family capital at risk until they have acquired experience and a track record of success. Some of the happiest and most productive wealth owners we know are next-generation family members who have been released from the burden of family expectations. It's a big responsibility to invest your siblings' and your parents' money while trying to enjoy Thanksgiving dinner with them, too. If you don't have their confidence, you're all probably better off if you do something else for a living. Family should come before business, even if it means you don't work in the family business.

Entrepreneurial stewardship

These paradoxes can be managed by the effective study and expression of entrepreneurial stewardship. Entrepreneurial stewardship is the key to the successful entrepreneur earning the G1 designation, and it is the key to families continuing to flourish into G2, G3 and beyond. Our use of this term refers to families' need to manage the apparent contradictions of conserving their existing wealth while at the same time encouraging entrepreneurship among their members, in order to create more.

Entrepreneurial stewardship is itself a juxtaposition of opposites, an apparent contradiction, a paradox. Yet it represents the challenge that the first, second and ensuing generations in any wealthy family face. A typical entrepreneur has little to lose when starting a business other than reputation and sleep. So "taking risk" has a different meaning than it does for someone who inherits wealth and

exposes that wealth to risk. Stuart often wonders whether his great-grandfather, the founder of Carnation Company, would have been encouraged as a second-generation entrepreneur: Before he started Carnation he had three business failures to his name and no successes. How many families would have backed him for venture number four? How can families build a culture that would enable an E.A. Stuart to flourish as a G2 or G3 entrepreneur, to benefit the family, yet to protect the family's capital from undue risk?

One of the biggest challenges for many highly successful people is shifting their mindset from being in control to enabling others to take control. The senior generation must come to terms with giving up power and crafting a new relationship with wealth; viewing personal wealth as family wealth and viewing one's legacy as residing in the actions of descendants and beneficiaries, rather than in one's own actions. A great irony of successful multigenerational wealth management is: ***The more powerful your family legacy grows, the less your descendants depend on your money.***

In most non-family-run businesses, retired CEOs depart. But in family-controlled businesses retirement can be a relative thing. Sometimes the family leader tries to manage a controlled transition: helping the next generation to gain more experience while risking other people's capital as entrepreneurs or business leaders before being tasked with managing family capital. Other times the leader's success results in an overly confident belief in his or her infallibility. Up-and-comers in the next generation can be viewed as a threat if they are independent minded, or their ambitions can become constrained in order to fit the worldview of the leader.

The very nature of inherited wealth involves living in the shadow of a successful predecessor. This alone can raise doubts and undermine the self-esteem needed to be a successful entrepreneurial steward. Here again, seniors can be in a position to set the tone for ensuing generations by helping their children to develop power independent of their parents. This doesn't come naturally to most wealth creators who have thrived with control. Yet investing in succeeding generations—by listening, encouraging independence and accepting failure—will bear fruit.

Entrepreneurial stewardship suggests that knowledge transfer should precede wealth transfer. Enlightened leaders, preferably in G1, but essential in G2 and beyond, should embrace non-defensive communication, letting diverse family members share their opinions and ask candid questions. Yet rules are also important. If your family is a meritocracy, explain it. If accountability and transparency are important, explain why. If the business demands certain talents and not others, explain it. Explain the difference between operational management and family governance. If family leaders don't feel equipped to handle such a process on their own, then outside facilitators can

help create a mutual exchange.

A benefit of open communication is the clarification of which family members want to work for the family business and which want to create another path for themselves. Family members have varying talents; the unit will function better if all members feel valued. If parents treat all children with equal affection while recognizing differences in talent and aspirations, the children are more apt to like each other and thus be better positioned to collaboratively manage their fortune when the transfer arrives.

There are often benefits to pooling resources to maintain a family business, but if business is the only affinity that family members share, it is insufficient to maintain a healthy family culture. Successful multigenerational families apply the culture of entrepreneurial stewardship as much to the management of their families and the reinforcement of family values and goals as they do to the management of their business interests.

Seniors can set the tone for ensuing generations by helping their children to develop power independent of their parents. This doesn't come naturally to most wealth creators who have thrived with control.

Flourishing family

The family culture should be stewarded and shaped every bit as much as the business culture. As families grow across generations, numbers grow through birth, adoption and marriage. The range of interests and histories broadens.

The affinities that define the family can become fewer and progressively diluted. Yet it is possible to find shared interests among all, or most, family members and to invest in them. When you find them, invest the time and effort to sustain them and enable them to evolve.

To be sure, many of us can relate—for better or worse—to vacations with multiple generations at the family home. It's comforting to reminisce about the person who made the home possible, if not about all the idiosyncrasies of your cousins! At the same time, we must remember to embrace different career paths and positive life choices, coaching the scientist-cousin and the author-nephew as they embark on their respective personal journeys. Individual talents create a mosaic that adds texture to family life.

Entrepreneurial stewardship encourages each individual to flourish, and it devalues a sense of entitlement. It's also a mindset for letting go, enabling children and grandchildren to spread their wings. And it creates the foundation for enticing them back to share their talents with the people who cherish them most. That's the best way we know of to resolve the paradoxes of family wealth. **FB**

Stuart E. Lucas is chairman of Wealth Strategist Partners LLC and author of the book *Wealth*. He teaches the Private Wealth Management course at the University of Chicago (www.wealthstrategistpartners.com). **David Lansky, Ph.D.**, is a principal with the Family Business Consulting Group Inc. (www.efamilybusiness.com) and advises families on issues related to family governance, succession, communication and conflict resolution.