

Secrets of Responsible Parenting

By Dennis T. Jaffe, PhD

David and Lisa are in their 40s, divorced for nearly a decade. David founded a successful Silicon Valley high-tech company and Lisa owns a clothing boutique. Their three children, who now are entering college, grew up living with Lisa in modest circumstances. David is concerned that they have no idea how much they will inherit. Moreover, he is uncertain how to even raise the topic with them. Lisa has taken care to protect them from knowing about their inheritance, but now David feels he should do something to prepare them.

Gary, now 67, and his father, Cecil, worked together for 40 years building a large manufacturing business. His younger sister Ellen owns 20 percent of the company and has two kids in their 20s. Gary and his wife have two sons and two daughters, all of whom are entering their 30s. Gary's daughters work in the business and his sisters' kids do not. A few members of the fourth generation have been born. Gary and his father are considering selling the business to a private capital firm. While Cecil and Gary are proud that their achievement will make everyone wealthy, Gary also has concerns about the impact of this on the third and fourth generations.

Each family has made the best possible financial preparations for the future, setting up trusts that will make all family members very wealthy for at least two generations. But in each case the financial preparations were not matched by any systematic attempts to prepare the next generation for the presence of so much wealth. The

parents want their children's lives to be enriched by their inheritances, but they also want their children to make their own livings and not become dependent on or impaired by the family wealth.

David is concerned that growing up with Lisa has not prepared his children for the wealth they will inherit. He feels that they are living in a world where wealth is frowned upon. He fears they will become anxious or upset when they find out, and he doesn't know what they will do. He finds it difficult to talk to them about it, especially because this is something that he and Lisa have had many disagreements about.

On the other hand, Gary's family has become more comfortable with wealth, but he has not talked with his children about what they can expect, and he doesn't know what his sister or her children expect. Money is not something they talk about, yet it is on his mind a lot.

Challenges for Family Wealth Creators

These scenarios highlight common challenges for parents who have created great wealth. First, the older generation tends to worry but has trouble knowing what to do about their concerns. Right now, things appear calm and comfortable across the generations. Why disturb it by talking about things that can wait?

The creators also worry about what will happen to the wealth when it gets into the hands of the next generation. How will the kids use it? If simply preserving the money is the goal, then it is prudent to put it in the hands

of financial professionals who can invest wisely. Make the professionals responsible, so the kids are passive heirs who can enjoy their gift. Mission accomplished: The wealth is preserved. Or is it?

What is the underlying message given to the (now) adult children when parents take control and responsibility for the family wealth out of their hands in this way? On the one hand, elders want their children to be responsible heirs and not squander their inheritances. Yet they frequently create trusts and layers of professional management that deny them this opportunity. Being a "trust fund baby" means a life of affluence and continued dependence well into adulthood, which is not an adult role. This conundrum—wanting to share the benefits of money with children, but wanting to control how the children use the money—causes confusion. How can parents trust their adult children to use the wealth responsibly? When can they risk giving up control, and how can they best prepare the next generation to take control?

My colleague James Grubman and I have written about the different worlds that the wealth-creating generation and their children experience (Jaffe and Grubman 2007). Wealth creators, we observe, grew up without great wealth and developed their capabilities to succeed. They have great self-confidence, so they do not fear losing money. In fact, they are great risk takers who often have lost as much money as they have made. As such, they are "immigrants" to the lifestyles, habits,



and world of the wealthy. They know very little about how to live with wealth and nothing at all about how to prepare their children to inherit wealth.

Their children have almost the opposite world view. They grow up as natives in a world of great comfort, where they are treated as special because their families are wealthy. They may never realize that other people do not have what they have. They have never been without wealth, but they don't really know where it comes from or very much about the skills they would need to earn such wealth. Because they have so much, they may experience anxiety about what would happen if it were gone. Or they may assume and expect that their lives will continue to be privileged. They may think that the money is, or should be considered, "theirs," though in fact it is not.

It is hard for them to prepare to work assuming that an inheritance awaits them. They may fear making choices and not being good enough, especially when compared to the outsized achievements of their parents. So, while they may feel they want to work, they find it hard to successfully take the first steps. At the first sign of difficulty, they may pull back. Because they have a nice cushion, they don't feel pressure to push through adversity as they start careers. This dynamic explains the checkered work careers of some heirs—they don't have the incentive or the skills to put up with adversity or take risks. This may puzzle their parents, who have taken great risks.

Growing up in the very narrow world of wealth, privilege, fine houses, grand vacations, and private schools (living, as Robert Frank put it, in the country of "Richistan"), they often have a very naïve view of how the world works and what real effort and achievement looks like. For example, young people from wealthy families who get into highly competitive colleges may feel (reasonably) that family connections—not personal efforts—are responsible for the accomplishment.

When they get to school, their allowances and their names may lead to distractions they are not prepared to overcome.

Young people coming from such circumstances need to grow and develop their own sense of what to do with their lives, and the credibility and capability to achieve it on their own. To do this, they need to become independent of the role their parents have set out for them. Parents like David and Gary, successful as they are, find it almost impossible to understand this dilemma from their children's point of view.

Young people from wealthy backgrounds frequently begin this journey when, often for the first time, they get the message that they can't do anything they want. They get poor grades, get cut from a sports team, or have difficulty in a relationship. Others struggle with drugs, alcohol, eating disorders, or behavioral addictions, which they have to solve on their own. Some heirs do not emerge well from these challenges; for others, these challenges provide a wake-up call that guides them to personal responsibility, self-confidence, and capability. Parents must hang back but provide appropriate emotional support and show children that they have faith in them. That often is a hard balance for any parent to find.

Parenting Responsible Inheritors of Wealth

How can parents support this journey of self-development and help children build a sense of responsibility? This is the challenge faced by David, Gary, and their families. A parent can't guarantee that offspring will become independent and responsible, but a parent can make the desired outcome more likely and more attractive to the child. I put these pathways in the form of principles for parenting responsible inheritors of family wealth.

Find teachable moments. You cannot just wake up when your kids

are in college and decide to inculcate values about personal responsibility for wealth. Children learn from life lessons that arise when parent and child have an experience together that leads to a conversation. As children grow up, they will ask you questions about wealth, work, and money, often in the car, and you should be ready to open up the dialogue when it happens. Similarly, stories that come up at the dinner table (you are having family dinners, aren't you?) about events at various family enterprises and with other people can be pursued. A parent can take these opportunities to ask questions, further explain, or ask for ideas. Many adults recall dinner-table conversations that may have been completely unremarkable to parents as having great impact on them.

Don't avoid talking about business, money, and wealth. Too many heirs report that they got the message from their parents that these topics were not to be discussed. This makes it doubly hard when the topic eventually does come up because it is emotionally awkward and may make them suspicious. If the topic is not discussed at home, where will kids get their information? The two families discussed here, by not being engaged in the lives of their children, have no way of knowing what the young people in the next generation know, think, or care about. It is important not to have the first explanation about the family assets when the trust is paid to the children, and it's important that parents not task the family advisors to have this conversation for them. A family needs to share the nature of its enterprises, increasing the detail as the children mature. When a young person is kept in the dark, fantasies, unrealistic ideas, anxiety, and poor information from peers take over.

Promote exchange about family legacy and values. Parents are usually quite clear about values that are important to them. But ask them how

they plan to pass on these values and they may draw a blank. Parents who want to pass on specific family values need to be gentle but clear advocates for those values. Parents should take many opportunities to explain and even justify these values to their children. Children may disagree or push back. Recognize that not all values are set in stone; some are modified in new environments, and others, like those about gender roles or age of succession, do not stand the test of time. Questioning and examining the nature of values is the beginning of responsible commitment to them. For example, some young people feel that a family business

meetings, so they had no chance to explore issues that arise within families and among generations.

Initiate active learning of money skills. Many parents commission a financial seminar for their young people. The financial education of a young person who will inherit significant wealth is far more extensive than that of the average adult. But for training to be effective, it should be linked to practical action. Young people can practice investing real funds or allocating philanthropic grants either as individuals or as a next-generation team. By having a real task, they pay more attention to details and learn

relate directly to parental expectations of independence, yet often parents are neither clear nor explicit about the answers. Of course, all young people will test their parents, running up credit-card debt or getting into some other trouble. Parents' responses to these tests are crucial. Is the kid bailed out "just this once"? Does the child have to repay the parents? Young people need to know what support they can expect—or not—so they can make their own plans and choices. A clear expectation of independence may help motivate a young person to explore opportunities and make career choices. Families often have rules about entering employment in the family enterprises, (such as first working for several years outside the family or earning an advanced degree) that support building credibility and independence then returning to the family fold. These are difficult lessons to teach—and to learn. Parents need to resist the temptation to continue taking care of their children, and children need to resist the temptation to continue being taken care of.

Offer meaningful ways to help the family and become involved in family activities. To a young person, it may seem that the older generation will never give up control of leadership positions in the family business, family office, and family governance (i.e., board or family council). In order for a young person to look forward to responsible service, the family should find ways for younger family members to serve the family and demonstrate their capabilities. Younger members can help organize family meetings, create next-generation educational programs, serve on a family committee, become involved in the family foundation, or take on a project for the family office. One family's teenagers, for example, created a family website and social network and trained their elders in how to use it, demonstrating their knowledge and skill in an area

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should operate according to values of social accountability, which were less prominent in an earlier age but are becoming a source of new direction for some family enterprises.

Hold regular family meetings.

Where does all this exchange and learning take place? A lot can happen spontaneously in everyday activities, but successful multigenerational families usually have regular (often annual) family meetings. Family meetings are where family members have fun together and get to know each other, and they are also the time and place for serious discussions about values, expectations, differences, concerns about money and the family business, and defining or clarifying policies. Family members who have not grown up together need regular family gatherings to develop a sense of connection or the extended family will fragment and grow apart. Neither of the two families described above had such

more deeply. When a family seminar combines learning how to invest with exploration of the family portfolio or investment guidelines, the learning becomes real. For example, some families set up investment clubs for teenagers; others have quizzes or contests (complete with attractive prizes) about the family business at the family meeting.

Communicate clear expectations and definitions of responsible young adulthood. What do children like those of David and Lisa, or Gary and his sister, expect from their parents after college? Do they expect to be supported by the family or to support themselves? Can they use family money to buy a car and if so, what kind? Can they live at home or get funds for graduate school? Will the family support their travel or work in a nonprofit or nongovernmental organization? What if they want to polish their surfing or join the sailing circuit? These questions



that was unfamiliar to the older generation. Wealth creators by nature are competent and controlling, and they find it difficult to allow the next generation to take over the functions they themselves do so well. These types of projects allow children to learn to take on responsibility and help parents learn to let go.

I have found that families that produce responsible, engaged, and productive members of the next generation incorporate some if not all of these principles in their family behavior.

With encouragement from their advisor, David and Lisa finally sat down and talked with their children about the inheritance, and then David involved the kids in running the family foundation and finding roles as social entrepreneurs.

Gary and his sister worked with a family business consultant to set up a family council to represent all generations of the family. The council met several times to talk about the sale of the business and considered what each family member wanted to see in the family. Together, they created a 50-year vision for the family.

Both of these extended families found that when they acknowledged the challenge of passing wealth across generations and began talking openly and candidly, they could find common purpose, build trust, and find solutions. Each family went from being a group of isolated individuals with unshared anxiety about the future to an open and engaged group of people able to collaborate on a shared desire to work together across generations.


The Financial Advisor's Role

Families want their financial advisors to do more than help them structure trusts and manage money. Today's families desire financially competent advisors who can help them find both the personal and educational resources they need to help their children grow up and use inheritances wisely. Indeed, advisors

who work with the highest-net-worth families have found that they cannot separate financial from family issues.

Advisors therefore will benefit by developing skills to help families define rules and expectations for the next generation, providing educational programs, and setting up family discussions to explore these issues. The advisor isn't the instructor or the facilitator; the advisor helps the family find the right instructor or facilitator. For instance, the advisor can point the family to programs such as those offered by the Redwoods Initiative (redwoodsinitiative.org), which offers financial seminars for next-generation family members, seminars on social entrepreneurship and philanthropy, and networking and learning communities for young inheritors.

To do this, advisors need at least a journeyman's skills in family dynamics. For example, groups such as the Kinder Institute for Financial Life Planning and Money Quotient teach skills for better communication and coaching, and family dynamics programs such as the Ackerman Institute in New York, and the Georgetown Center for Family Therapy in Washington DC

recently have offered seminars on issues of money and wealth in families. My colleague James Grubman and I offer a three-day seminar on family dynamics for advisors, sponsored by Northwood University (<http://www.northwood.edu/SharedMedia/PDF/ABDCCE/FamilyOwnedBusinessProfessionalsfinal2011.pdf>). By all accounts, more learning programs will follow for both advisors and families to learn how to create a positive family climate for responsible adults and next-generation stewardship. 

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