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The entitlement trap

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Recognising and taking steps to address the 'entitlement trap' is a challenge that is as old as the family unit itself.

The problems that can be caused within a family unit by the entitled child of privilege, and the intra-family resentments that can be created by the proverbial 'prodigal son', do not admit of any easy solution.

Families that are sensitive to this issue struggle to inculcate a sense of responsibility, discipline and balance in their children, who grow up in conditions of privilege, and to convey to them the message that creating and maintaining wealth is difficult and requires work and dedication.

Communication among the wider family group, and with it the transmission of family heritage and values, has helped families instil a sense of broader responsibility and purpose in succeeding generations. Likewise, providing visibility into the work required to oversee and direct a family's investments, and even providing early opportunities to participate in that investment oversight process, can help convey a sense of what is involved in the stewardship of family wealth. Family retreats and other avenues for education can help families prepare junior generations for their roles as responsible stewards.

The 'problem child' problem

An equally perennial issue for wealthy families is how best to address the circumstances created by the 'problem child', and the ripple effects caused in a family arising from criminal behaviour, substance abuse or similar issues, improvident personal relationships, or other problematic personal matters.

A structured approach to wealth preservation and generational wealth transfers can provide some insulation against the financial effects of problem child behaviour, by interposing legal protections and formal entity structures between the problematic family member and the family's assets.

Analogous to this problem are the complications that can arise from divorce, remarriage and multiple marriages, as families look to navigate the sometimes difficult wealth transfer and succession issues involving ex-spouses and step- and half-siblings. A family that has a rigid tradition of fixed succession parameters (first-born child, eldest son or any similar formulaic approach) is especially vulnerable to problem child risk, as it does not have either a history of, or any commonly accepted process for, dealing with leadership succession when that mechanical approach produces a patently unsuitable candidate for family leadership.

This unsuitability can manifest itself in ways that are less dramatic, but equally require an ability to come to a consensus within the family regarding the leadership of the family or a family business enterprise. It can be a difficult and painful process for a family—and, particularly, the family member in question—to accept that a family member is not suited for the role that traditionally had devolved on the person with their position in the family.

Trusted outside advisers and family office professionals can play a crucial role in effecting the changes in leadership that those situations require.

Lack of connection

While the entitlement trap and the 'black sheep' problem focus on issues relating to individual family members, the issues caused by lack of connection among family members are both less obvious and more insidious.

As discussed earlier, transmitting culture and fostering cohesion are key elements in creating the connectivity that keeps wealthy families from splintering over time. It is a huge challenge for a family whose successor generations do not have that sense of connectivity to deal with family leadership succession and to find a common ground from which to work collaboratively to steward their family's wealth. That sense of connection is extremely difficult to manufacture when needed—it either is developed organically over many years of planned and purposeful communication and engagement or, in most cases, it simply will not exist.

In our experience, families that are unable to develop and maintain that connection across the generations are much more likely to fracture over time, leading, at a minimum, to the 'Balkanisation' of a formerly unified vehicle of family wealth into a number of much smaller, separate units and, at worst, to the dissipation of family assets in protracted, painful and expensive intra-family litigation. Building relationships among members of successive generations early gives them the mutual familiarity and relationships that allow for cohesion and resilience in the face of change and transition.

Alignment of goals

Part of maintaining unity and successfully stewarding wealth across generations is communicating a sense of unified mission and shared goals to family members in those successive generations. This, in turn, can require a family to periodically undertake a process of identifying and assessing those goals and ensuring that they remain aligned with the goals and objectives of those new generations.

Family leadership needs to recognise that successive generations may have different values and priorities than those of their predecessors. In recent years, we have found that this value shift has frequently manifested itself in junior generations' strong interest in impact investing—for instance, in environmental and social governance projects—with such interest being reflected in both venture investment projects and philanthropic priorities.

As the Millennial generation comes to the fore, families seeking engagement with their Millennial family members increasingly look to strategies such as impact investment to find a basis for alignment of goals, connection and a sense of family mission and purpose.

Conversely, the failure to transmit that sense of family connection and purpose, and the failure to develop an alignment of goals across generations, can lead to fracture and disunity. Members of a junior generation who do not feel that their voices are heard or that their goals are taken into consideration are less likely to feel a sense of engagement with, and connection and commitment to, the family as a unitary cross-generational entity, and thus, are less likely to maintain that unitary family when they succeed to seniority.

The failure to find alignment and compromise regarding investment strategy and goals among family members, even absent generational shifts in emphasis, can be equally problematic.

Example. Competing priorities

One member of the family may be interested in short-term liquidity to finance lifestyle ambitions, while other family members might be more interested in holding investments for longer-term wealth creation, or to enable substantial philanthropic endowments or the like.

Misalignment can also occur when there is a pressure from a family member to devote significant family assets to a vanity project—investing in an asset that is not of interest to the family members more generally, or engaging in high-profile and expensive philanthropic or political activity. Finding a way to mediate these individual priorities in the context of a more broadly based family strategy can take creativity, patience and no small measure of diplomacy.

Training and education

A family puts wealth preservation at risk when successor family members have not been prepared for their stewardship roles. That preparation can take many forms, depending on the specifics of the family and its assets. However, without adequate training and education, successor generations can find themselves in positions of responsibility for their family's wealth without having been provided with the tools to discharge that responsibility successfully.

In our practice, we have seen family education and training events cover a wide range of topics, depending on the family and its particular activities. Families frequently use educational programs to provide family members with a measure of basic financial literacy on investment and accounting topics, but also use training and education sessions to provide family members with a fundamental understanding of the family's operating businesses and philanthropic activities.

Assumptions and expectations

Among the most challenging and sensitive issues in effective generational wealth transfers are those arising out of assumptions and expectations concerning family members' roles. These issues can arise in various contexts, but in each case, demonstrate the importance of open and honest assessment of skills and aptitude when considering family governance.

The quote

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Assumptions regarding roles of, and expectations for, sons versus daughters can be a challenging mindset to change, and can vary widely across cultures. Family-controlled businesses that have 'always' had a family member as CEO can be faced with difficult succession issues where there is no suitable family candidate, particularly where a family member has an expectation of assuming that role.

Conversely, a family member can feel an obligation, because of those same assumptions and expectations, to assume a role for which they are not suited and that would be better filled by an outside executive. The addition of sons- and daughters-in-law to the mix can make those succession questions even more complex.

Conclusion

Divergent values and financial objectives among family members can dissipate a family's assets. Particularly as successive generations become more removed from the generation that accumulated the initial wealth, a sense of entitlement and lack of familial ties can threaten the success of generational wealth transfers. Leadership that encourages transparency within the family and buy-in of a shared philosophy across the generations can help overcome these pitfalls. **FS**