



A family may fear that their children will use up their inheritance. The best insurance that the money is used wisely is to take steps to make sure that each heir develops passion, values and responsibility so they can lead a fulfilled adulthood and continue the wealth into future generations

The burdens of wealth

By Dennis T Jaffe

COMING FROM A WEALTHY FAMILY can be quite a mixed blessing. Willy Vanderbilt, grandson of Commodore Vanderbilt, who built the New York Central Railroad, creating perhaps the largest family fortune of that time, was healthy, wealthy, good looking, charming and successful at running the family railroads. Yet, in a reflective moment, he conceded that wealth was not a solution for everything in life:

"My life was never destined to be quite happy. It was laid out along lines which I could not foresee, almost from earliest childhood. It has left me with nothing to hope for, with nothing definite to seek or strive for. Inherited wealth is a real handicap to happiness. It is as certain death to ambition as cocaine is to morality." (*Fortune's Children*)

Is there something the family might have done to make him feel less hopeless about himself?

The shadow that weighs heaviest on the concerns of the first generation creators of a successful family business is concern over what inheritance will do for the next generation.

- How can I motivate my children to want to work? What should they do with their lives?
- How can I keep them from being spoiled, or squandering the family's resources?
- Should my children inherit great wealth, or should it be given to a charitable trust or foundation?

"I came from a family with little means, my children always had more than they needed, but I am concerned about how will their good fortune affect their motivation and direction in life," said the founder of a large biotech company.

Family business founders and their heirs come from vastly different worlds. Founders did not grow up rich, and can remember the years of struggle and hard work that went into the creation of their enterprise. Their children, as diligent as they may be, have never known struggle. The fact is, they have

always known they are wealthy. Wealth is part of their identity, and it produces curious ambivalence on their part. The family wonders, how can their children learn about the need for struggle to achieve results, the need for persistence, when you have everything you want?

One liability of wealth for heirs is the feeling that they don't deserve their good fortune. John Sedgwick, who interviewed 75 heirs about the effects of their inheritance, wrote:

"For all rich kids, the act of inheritance is entirely passive. Yet this sometimes makes the guilt more severe, and more permanent. True criminals, at least, have something to confess. They can receive forgiveness, they can reform, they can put the sins behind them. But rich kids start to feel they are the sin themselves, and every crime that was ever committed hangs on their heads. They see the inequity that lies about them, or read about it in their money mail, and they think they are responsible for it. Because they are on top, they must be squashing those on the bottom. This is the true embarrassment of riches." (*Rich Kids*)

Another aspect of growing up wealthy is the isolation that it produces in family life. Because you have a lot, you distrust the motives of anyone who befriends you, let alone wants to date or marry you. So, young heirs find themselves confined to a 'gilded ghetto', and often find it difficult to trust other people and to understand the lives of ordinary people.

The challenge all of this presents for a family is immense, though not one likely to receive much sympathy. A wealthy family has to work hard to produce responsible, productive and fulfilled heirs. There are some practices that next generation family members find helpful.

Teach compassion

Children are curious about money, they hear their parents

talking about it, and they ask questions. Their parents may evaluate other people on what they have and how they use it, attribute certain virtues to how families live. Talking about money and wealth is considered taboo in some families. This taboo in fact is responsible for the vague feelings or guilt that Sedgwick referred to above.

A family can however have open discussions about money and what it means to the family. These discussions form the basis for money values in later life. Children see rich and poor, and they want to understand why there is a difference. How does the family account for its wealth in these discussions? The most important quality for a young wealthy person to develop, is compassion for those who do not have wealth, and appreciation that the world has great inequality. The opportunity to talk about these differences, and even to take time for charitable work where they actually see and help those less fortunate, forms the basis for personal compassion. If a young person sees first hand the effects of good works, not just writing a cheque, but actually seeing how less fortunate families live, it can have a powerful effect. As children grow, volunteer work in the community, in museums or service groups, and for the environment, should be a regular activity.

Finding a passion

In order to feel alive, fulfilled and productive, a person needs to discover something they can do that makes a difference. For the family business heir, that passion can be continuing the work of the family in their business, or generating new ones. But this presents two problems, first, that they may feel they can never equal the feat of the business founder, and therefore feel no real satisfaction in their achievements. Second, there are only a limited number of places available in the family business, and they require specific capabilities that may not lie in the family member.

So, most family business heirs will have to find their passion elsewhere. Some find it in spending their fortunes, but such passion tends to be empty. The greatest satisfaction lies in those family members who find a calling, not necessarily commercial, that makes a difference. They find careers connected with charitable works—preserving the environment, creating an art gallery, or developing urban schools. They may challenge themselves physically—exploring, climbing mountains or sailing competitively.

“Do I have to work?” an heir will ask themselves and their family. I worked with two families of equal and substantial wealth. It was curious to me that in one of them, each young person grew up excited about developing a career, doing something in the world, even knowing that their income would be supplemented by the vast family’s wealth. They each had a powerful urge to create their own achievements. The other family grew up not knowing what to do. Their wealth was there, but the family had not helped them develop any motivation or structure in their lives that would help them find direction. Successful families want their heirs to want to “work,” even if this does not mean necessarily working for money.

Heirs must have the support to explore many possibilities as they grow, with the implicit message that while they may not be making money, they should find something productive, that makes a difference.

Responsible stewardship of wealth

Not everyone can make a fortune, but too many heirs find spectacular ways to lose it. In big ways, and in little ways, the heirs of wealth are ripe for exploitation. The family can anticipate this by teaching their heirs about how to manage their wealth. The Pitcairn family, with scores of family members entering its fourth generation, created a seminar that introduced family members to their financial affairs, and how to make good financial decisions. While only one or two family members work in the family’s business, it is felt that every family member must learn how to manage money thoughtfully. Other families give their young sons and daughters a certain amount of money to manage, and they receive the whole amount, including what they have made, when they reach a certain age.

There are also values that the family develops about its wealth. The wealth means nothing in itself; every family must tell their heirs what their family money is for. Is it for the personal pleasure of each heir, or is it something that is meant to be passed down to succeeding generations? These values underlie the understandings that come with the inheritance of great wealth. For example, one of the most important decisions for a family is to keep its wealth together in a series of family

investments. Family heirs must understand the reasons behind those decisions, as when they actually inherit, they will have to make the free choice to stay with the family enterprises.

Inheritance without dependency

Inheritance can take many forms. In some cases, through trusts and other vehicles, a person can inherit some of the benefits of an asset, but not control over it. Many heirs of great fortunes never really have their inheritance, as they have very limited control over it. A family may create a trust, and set up such a relationship out of fear that their children will use up their wealth. But in the end, the best insurance that the money is used wisely is not to take steps keeping control away from the next generation, but rather to take steps and make sure that each heir develops compassion, passion, real work, values and responsibility about money. In the end, the family must learn to trust the next generation to make its own way, to use their wealth, and to make their own choices. By preparing their heirs for responsible and fulfilled adulthood, they increase the chances that their wealth will continue to make a difference in the lives of their family for many generations. ■

Key activities

- Talk openly about your wealth and what it can do with your children
- Offer opportunities as a family to practice charity and help others
- Encourage each family member to find productive ‘work’
- Offer opportunities to learn about management of money
- Create clear values about their direction and purpose of the family’s wealth
- When certain conditions are met, each heir should inherit not just money but control over their wealth, within the agreements that have been made as a family

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