The Family Office: How to Avoid "Latent Development Syndrome"

By: David Lansky, Ph.D. and Anne Hargrave
The Family Business Consulting Group

For many wealthy families, the family office serves as an interface between family members and the family's assets, providing services that enable responsible and comprehensive management of the family's wealth while concurrently providing for the development of family members in their roles as wealth owners and beneficiaries. In our capacity as advisors to wealthy families and their family offices, we have noted on a number of occasions a dynamic that we are calling the "Latent Development Syndrome."

Although, in addition to managing the family's *financial* capital, the family office's mission may be to assist in the development of *human* capital, we find that family members are too often frustrated in their development and limited in their actual growth as wealth owners and beneficiaries. In short, they are suffering from the Latent Development Syndrome. The syndrome, as we envision it, consists of family members whose maturity and development as inheritors, beneficiaries and family members are delayed as a result of several factors which we will discuss below. However, we'll begin with a discussion of what we believe to be indicators of the syndrome.

Signs of Latent Development Syndrome

Young adult inheritors who have limited engagement with the family office

A key indicator of this syndrome is passive beneficiaries who lack the skills to properly make decisions regarding their financial gifts and who have not properly been oriented or educated as to the nature of the family's assets. These young people often have little connection to the values that accompanied wealth creation or that serve as a foundation for wealth preservation and are not prepared to steward the family's mission, vision or material assets. There tend not to be meaningful roles with real responsibility for them in the family office. They tend to be viewed as immature and uninterested and they are frequently treated accordingly, although they may actually be interested and don't see an avenue for engagement. Such treatment might be described as "infantilizing."

Wealth creators who maintain autocratic control

Consider the example of three generations of family members where only the matriarch and the family office president understood the trust structure of the family, how assets were managed, and the liquidity available to each family member. In order for one of the 40 family members to withdraw money from their trust, a case needed to be made to and approved by the matriarch.

Development as a human being and as an inheritor requires the opportunity to make independent decisions and to make mistakes. Inheritors in an autocratic family office environment such as that described here learn very well and very early how to ask for money — they learn less about how to manage the responsibilities and privileges that accompany their position in life.

Trustees or family office executives who share information about family members without respecting age appropriate boundaries

The family office is fundamentally an "information processing entity" which serves, informs, educates and manages based on information about investments, legal documents and family matters. Therefore, control is typically vested in those who control the information. Trustees appointed by a grantor, or family office executives hired by a wealth creator, may maintain their allegiances by providing information about beneficiary spending habits or by consulting grantors or wealth creators on decisions related to distributions. When beneficiaries are adults who are growing into their roles and responsibilities as wealth owners and family members, these actions may compromise their development and lead to destructive triangulation and conflict amongst family members.

In one family, a family office CEO was threatened with loss of his job when he refused to share information about next generation spending habits with the wealth creator. In another family, a trustee showered criticism on the beneficiaries because the wealth creator was so aghast at his children's spending habits. While, of course, beneficiaries need to learn how to manage their wealth properly, inappropriate information sharing can result in an "infantilization" of family members, frustrating them, compromising legitimate efforts at development and tainting what should be supportive and healthy relationships.

Poorly evolved relationships between younger family members and family office executives

Family office executives are often initially hired based on their competencies in the law, financial management or business acumen. Emotional intelligence may not be a necessary criterion. However, as a family grows, connecting well with next generation family members becomes more important as the proper development of these family members is critical to the long-term sustainability of the family's wealth. One of our most successful family office executive colleagues has described his role in the family office as becoming "more a mentor, less a lawyer."

By intentionally developing deeper, more meaningful and independent relationships with each rising family member, it is increasingly possible for a family office executive to help individuals make thoughtful decisions about their wealth. When family members feel distant from management, their potential for active engagement with their assets is compromised.

An Unintended Consequence of Multiple Factors and Stakeholders

We view the Latent Development Syndrome as an unintended consequence of multiple factors and multiple stakeholders operating in a family office environment. These factors include:

Wealth creators' ambivalence about the gifts they provide to family members

These gifts are often driven by tax-planning initiatives. As a result, family members may be faced with resentment or regret of the wealth creator when the extent of their gifts over time is realized. Fully realized ownership or control by inheritors requires a wealth creator or grantor to manage his or her own ambivalence and to initiate, or at least support, efforts aimed at developing inheritors and encouraging them to be contributing members of the family office.

Inheritors' ambivalence about the gifts they receive

Family members may experience ambivalence because they believe they have not earned the assets they have been gifted. If they also experience ambivalence from the wealth creator, trustees or advisors, they may be reluctant to assume appropriate ownership or responsibility for their assets.

Family office executives' and external advisors' intimate and historical connections with the wealth creator

Executives' willingness to engage in development of the next generation is complicated by their attraction to working closely with a dynamic founder/wealth creator, concern about not being appreciated by the next generation, a lack of respect for the next generation and fear that change will restrict their autonomy and influence.

A business structure that insulates, protects, promotes dependency and shields family members from risk

Family offices are often designed to manage risk and protect family members. Therefore, in their very nature, they may contribute to the Latent Development

Syndrome by not proactively engaging family members in understanding their choices, educating them appropriately and helping the family members to make decisions for themselves.

How to Address Latent Development Syndrome

Given the diverse factors contributing to the Latent Development Syndrome, we recommend corrective actions at the level of the family, the individual and the structure and operations of the family office:

1. Conduct regular family meetings that directly address the need for development of each generation.
2. Empower the next generation by providing age appropriate education and decision-making authority.
3. Provided the next generation is properly prepared, encourage and support wealth creators to transition authority and responsibility for asset oversight to next generation family members.
4. Work toward creating a culture within the family office that supports each adult being treated in an age appropriate manner: supporting their development, allowing for exploration, making age appropriate decisions, etc.
5. Engage in productive discussions about appropriate information sharing within the family office and between executives, trustees, wealth creators and beneficiaries.
6. Develop objectives for executive team members that support building closer, mentoring relationships with family members. Executive team members and other family advisors should understand the importance of developing productive relationships with family members in addition to founders and wealth creators.
7. Hire and empower executive team members with the emotional intelligence and technical skills to develop deep, personal connections with each person, understanding their learning style, interests, skills and competencies.
8. Consider creating benchmarks within the family office governance structure so that family members understand what is required for successively higher levels of participation and decision-making. *(Thanks to our colleague John Duncan for this idea.)*

When family members, family office executives and trusted advisors recognize the signs of the Latent Development Syndrome, and proactively take steps to work against it, there is a higher likelihood that inheritors/beneficiaries will engage productively with their wealth. Thoughtfully educated and engaged wealth owners are more likely to make mature decisions and flourish.

David Lansky, Ph.D. is a Principal Consultant with The Family Business Consulting Group, Inc., and can be reached at lansky@thefbcg.com or 847.266.1000.

Anne Hargrave is a consultant with The Family Business Consulting Group, Inc., and can be reached at hargrave@thefbcg.com or 973.377.3079.

Reprinted from The Family Business Advisor®, A Family Business Consulting Group, Inc.® Publication

The Family Business Advisor