Managing the Psychological Impact of Inherited Wealth

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In a series of focus groups that my colleague Jennifer Pendergast and I conducted with wealth managers, family office executives and family members served by family offices, most expressed concern about the development and adjustment of family members who stand to inherit significant wealth. At the same time, we find services in these matters relatively rare.

While the relative proportions of each family office will vary, I recently asked a colleague about the proportion of various internal functions provided by his family office. The distribution was as follows:

1. Administrative, legal and tax advice – 50 percent
2. Investment management – 40 percent
3. Human capital development, e.g.: leadership development or counseling – 10 percent

In my experience most family offices do primarily serve functions 1 and 2, with some but far fewer resources dedicated to human capital development.

If managing the psychological impact of inherited wealth is a critical task for wealthy families, why are so few resources dedicated to these goals? In my view, there are four fundamental reasons:

1. Lack of direction regarding WHAT should be addressed.
2. Lack of agreement regarding WHO should manage the process.
3. Lack of clarity regarding HOW a process should be implemented.
4. Lack of agreement on FUNDING the process.

There is no one right answer to any of these questions because every family is unique. Nevertheless, I offer below my some perspective from years of working in this area.

What Should Be Addressed?

Alienation and Isolation

During a break at a recent family meeting I sat next to a young woman in her mid-20s who was struggling with school, career and various other issues. We talked quietly for quite a while about how her family was very wealthy and she stood to inherit a great deal of money. She had recently graduated from college but was unable to find work that interested her. She was interested in the family office but routinely missed meetings, conference calls and appointments that were scheduled in an effort to engage her in the family's enterprise. As we were talking, I made a suggestion:

"You know, in my experience, when people don't follow through with their commitments, it's often because there is something that should be said that isn't."

With that, she became very quiet.

"Friends, teachers, even a former mentor in the family business all say 'when they die, they want to come back as me'. How can I tell them what I am really thinking – that I'm lost and confused and very unhappy?"

This young women's experience is not unusual among families of the very wealthy. In her book, "The Golden Ghetto," Jessie O'Neil likened growing up with wealth to growing up in a culture of poverty: in both situations there is great emphasis on privacy and on keeping secrets. How could she share her misery with people who only see the bright side of growing up wealthy?

Growing up with wealth does not immunize inheritors from the normal struggles and strains of human development; however, it often does prevent people from openly admitting to their difficulties and seeking help when necessary.

Inheritors frequently speak of feeling alienated or isolated because their exceptional wealth creates a gulf between them and other people they encounter in the course of their lives. The importance of privacy has been so ingrained that even their very best friends have little idea about who the person really is. In some families, alienation and isolation cause a plunge into alcoholism and drug abuse.

Privacy is rightfully treasured by many wealthy families, but can create a “closed system” that self-perpetuates: The less we communicate about our challenges, the more alone we feel, and the more fearful we become of disturbing the status quo. A culture of quiet isolation can, for some people, lead to a progressive deterioration in adjustment and joy.

The most important thing we can do to counterbalance the risks posed by experiences of isolation and alienation is to create opportunities for facilitated, constructive open dialogue among inheritors between families with similar backgrounds and even within larger families when possible. In my experience, when provided an opportunity to discuss the various challenges of inherited wealth, inheritors jump at the chance.

Entitlement and Lack of Initiative

Families are frequently concerned about attitudes of entitlement and lack of initiative among inheritors. In fact, when I pose the question “What keeps you up at night” to wealthy parents, “entitlement” is usually one of the most frequently cited concerns.

Wealth can act as a buffer between living one’s life and life’s challenges. Too much of a good thing in this regard can:

- Undermine ability to delay gratification;
- Compromise the incentive properties of working toward personal goals;
- Lead to boredom;
- Lead to “hedonic adaptation” in which pleasures that are repeatedly experienced eventually lose their capacity to be fully enjoyed;
- Create the “paradox of choice” — decision paralysis stemming from inability to discriminate between the overwhelming number of options available to inheritors as a result of their wealth.

Concerns about entitlement arise because inheritors are perceived as “receiving something for nothing.” In some families, concern about attitudes of entitlement leads to the next generation of family members being steered AWAY from positions of responsibility out of fear that their attitudes of entitlement will undermine merit based business operations. The unintended implicit message is a paradox and difficult to untangle: “As a passive recipient of wealth, you cannot be trusted with certain responsibilities; so stay away and continue to be a passive recipient of wealth!”

In other families, fears that knowledge of forthcoming wealth will weaken initiative and will undermine the resolve of inheritors to pursue outside careers , leads to a lack of information and instruction on wealth management and financial responsibility.

Finally, while many wealthy families embrace the notion of wealth stewardship in an effort to convey responsibility to successors, this perspective does not fully account for or integrate the idea — promulgated by my colleague Stuart Lucas and myself — that wealth needs to be actively created in every generation if it is to last over time. Stewardship can suggest a passive approach to sustaining the status quo and might even deplete entrepreneurial spirit that most wealth creators would like to see in their descendants. We prefer the practice of entrepreneurial stewardship, which is intended to promote and nurture entrepreneurial efforts in succeeding generations.

There is no one definitive way to address these issues because every family is different. However, in my experience, families who do best with these matters invest resources in structured and continuing education about wealth, and about the family wealth in particular. Fears that too much information will undermine efforts to teach responsibility are unfounded. In fact, families with the most difficulty seem to be those that provide the least amount of information to inheritors — perhaps because they are most likely to treat inheritors as incapable of taking appropriate responsibility, thereby creating the dilemma they are so concerned about.

Many people would like specific guidelines about when and how much financial information to provide. However, I think this needs to be addressed by each family in a thoughtful and structured manner so as to actively adapt educational efforts to the needs and qualities of the family itself.

Independence and Autonomy

In several interviews I conducted with family members in their 20s and 30s, they shared the following thoughts about being an inheritor:

"Decisions are always more complex. You have to think about pre-nuptials and estate plans because that's what other people in the family are talking about."

"Not having a sense of your own identity because you are living in someone else's shadow."

"As much as I love my family, sometimes I feel like what they ask of me, expect me to participate in, provide opportunity for, gets in the way of me trying to live my own life and get my own life on track."

Living in another's shadow can be excruciating: Lofty expectations that come from following an extraordinarily successful predecessor can be unrealistic, untenable and burdensome. It can mean not being known for who you are but for how you compare to others. When wealth is the result of someone else's accomplishments, it can be difficult to place much value or to take much satisfaction from personal accomplishments because there is always the suspicion that success is at least partly the result of someone else's efforts or the resultant wealth.

Some inheritors fear they will not be liked or admired if they were not wealthy and distrust the motives of their friends and acquaintances.

Inheritors who most successfully manage the impact of their wealth are able to establish personal identities and life paths that are enhanced by their wealth, not subsumed by it. Paradoxically, this is all the more difficult in families that implement sophisticated systems of family governance because the participation demands imposed on inheritors can significantly draw them away from careers and relationships outside the family.

In my experience, inheritors who receive explicit counseling regarding personal strengths, educational paths, career goals and in how to manage the many conflicting demands from family participation and personal development do best in creating independent functional identities.

Who Should Manage the Process?

I am often asked by family members and advisors about how best to raise these issues without offending others in the family. In my view, directly raising these concerns is the best way to introduce the subject in a family. However, I do recognize that the direct approach may occasionally backfire; an alternative path is to ask directed questions to the key parties and then to allow a decision to emerge at an appropriate time. Examples of useful questions are: "Have you ever thought about how inherited wealth might affect family members?" or "Can we be more pro-active in managing the impact of inherited wealth?" These questions are designed not to elicit debate, but to encourage thinking and dialogue.

In larger families and families with a formal governance structure, the Family Council, an Executive Committee or an Education Committee might begin the planning. In smaller families and families without a formal governance structure, a senior family member could "champion" the process as it moves to fruition. Effective management of this process will require an ability to view a family's needs in an objective manner and to communicate these needs to other family members with clarity, and without intimations of criticism or negative judgments — a difficult job, indeed! That is why objective, trusted outsiders should be involved as the process takes on momentum.

How to Implement the Process

Many families and the entities that serve them have made some prior effort to address the psychological impact of inherited wealth. These efforts often begin and end with one or two sessions during a family meeting. I propose a very different approach.

In a recent meeting, my colleague John Ward suggested business-owning families consider establishing a Family Human Resource Committee (FHRC). I propose that inheritors will also be well served by a FHRC that is established by wealthy families and their family offices.

The FHRC, as envisioned, is an entity that undertakes an ongoing development program that will address issues of wealth impact over the lifespan.

The FHRC would:

• Host regular meetings on psychological and developmental matters, and provide opportunities for inheritors to share their experiences with other inheritors;

- Develop a tailored plan of financial education for family members;
- Provide career and educational counseling for family members, and assist them in identifying career paths within and outside family owned enterprises;
- Refer to outside resources as necessary;
- In general, view its mandate as assisting in the development and continued personal growth across the lifespan of every family member.

The FHRC would be staffed by a combination of family members and outside independent parties who could provide objective views on personal needs and resources. Independent third parties are an important element of the FHRC because they can more easily manage confidential and possibly difficult communications with family members without risking their personal relationships.

Although primary family responsibility for the FHRC could fall to current family leaders, representatives of succeeding generations — family members in their 20s and 30s — might have representation on the Committee.

Family office executives would probably not be part of the committee, unless specifically tasked with Human Resources for the family, because we would not want them to complicate their professional relationships with family members. Multi-family offices might establish a FHRC that could serve the needs of multiple families.

In my view, the introduction of the idea of a FHRC to a family or to its governing bodies will be valuable in and of itself, by stimulating conversation and by provoking action to address some of the needs addressed in this article.

How Will the Process Be Funded?

This is a question as much about values as it is about finances, and each family will need to address the question in a thoughtful, constructive manner. However, if there is a belief among family leaders — as I believe — that the family as a whole benefits from the successful development of each individual member, then the process should be funded by a family as a whole.

Conclusion

I recently sat down with three siblings who were third-generation inheritors of significant wealth. They were all in their late 30s, had post-graduate degrees and were pursuing careers in their family's global business. They did not need to work for financial reasons and they certainly did not need to work in the family business.

The three siblings demonstrated a high level of competence, teamwork and comfort with themselves and with their wealth.

This was a highly functional family of considerable wealth. Reflecting upon that observation, I asked them to share their views on what contributed to their success in managing the impact of their wealth. They each thought about the question for a few moments and then answered independently:

"We didn't get too much too soon."

"We spent a lot of time together growing up and got to know each other really well."

"We understand and appreciate the legacy, the enterprise and the stories behind it."

My suggestions in this article are offered in the hope that every inheritor can share experiences similar to those described by these three siblings.

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