FAMILY WEALTH

How Wealthy Multigenerational Families Can Instill a Culture of Stewardship
Part I: Setting Baseline Agreements for Stewardship Behavior

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From *FFI Practitioner*

Thanks to Dennis Jaffe and Amy Hart Clyne for this two-part article that draws on their experience working with successful families to create an ongoing value-based culture for the responsible use of wealth across generations.

Jaffe and Clyne explore four key questions in the course of these two issues:

- How does a family develop an extended family mindset and create stewards for the future family fortune?
- How do families of wealth encourage young family members to remain connected and engaged as each of them explores personal opportunities?
- What preparation is required and what opportunities exist to develop the next generation of family leaders?
- How can family elders comfortably make room for future family leaders?

And . . . they give a warning that instilling a culture of stewardship as described in these articles is not a quick fix. Making it happen requires continual, multigenerational family engagement and activity.

Please read on for Part 1.

When families have created great wealth through a family enterprise, their focus often shifts toward ensuring that their wealth is used wisely by their children and grandchildren.

They want the family to continue to work together, and for the rising generation to use its inheritance responsibly. But too often, this does not work out as they wish. Their intention is clear, but how do they make it happen?

Expectations

Enterprising families often define aspirations and roles that they expect of the rising generation and from new family members. Those statements often look like this:

> - *We want to fulfill our potential as an extended family by developing your trust in each other and connection to the family legacy.*
> - *We want to see you doing things together, being engaged, and taking part in the family enterprise.*
> - *We desire our family to sustain deep cross-generational connection, trust, and care.*
> - *Given how much we have already achieved and the gifts we have received, we share a responsibility for how we will live and work in the future.*

The elders frequently are pessimistic or unclear on how to move this vision and these expectations ahead. Many family elders feel that their children are not sufficiently interested in these expectations to devote time and energy to shared activities.

Successful families see it differently. They respect their children's journeys toward self-fulfillment, but they know that the family enterprise offers a great gift as well. They want their children to take the family and the multigenerational wealth seriously. They want them to sign on as active family "citizens," dedicated to making the family culture work and endure, even as they pursue their own paths.

Building a Culture of Stewardship

In his classic book, *Stewardship: Choosing Service Over Self-Interest,*[1] Peter Block defines a culture style of *stewardship*, premised on relationships that build the common good of the wider community. Stewardship means giving everyone in the organization a true voice and ownership in how the business is run. Block defines stewardship as the spirit of partnership and service—a definition well suited for upcoming generation members who desire to serve with their voices heard and respected.

Successful families base their culture on gratitude and a sense of shared obligation to do well with what they have received. The culture is not premised on how much wealth they have, but on how they use their wealth to make a difference. In contrast to this idea is the belief that family members become "entitled" when they focus on what they have, instead of on what they are expected to contribute. They see their wealth as a prize, not as an obligation.

The central question becomes "How can a family develop a stewardship mindset and create new generations of responsible stewards?" Jaffe and Clyne's experience shows the following:

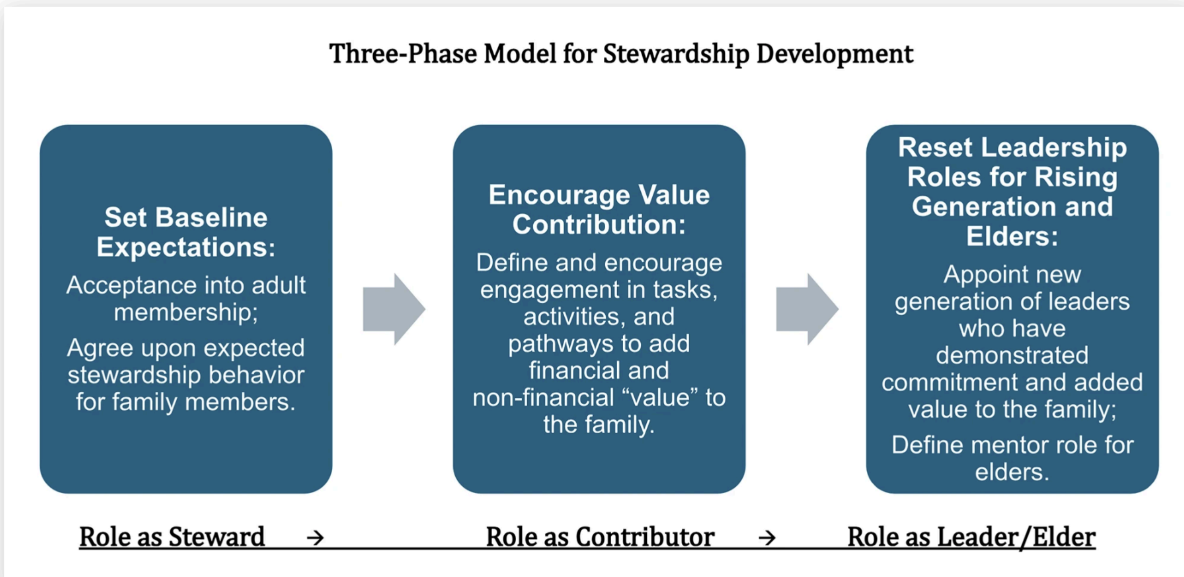
> *Families must understand that stewardship does not derive from a single action or directive from the elder generation. Rather, it must* ***evolve*** *from ongoing, active behavior on the part of the entire family community. New perspectives must be continuously explored, and many actions must be initiated, supported, and reinforced.*

To begin this evolution, the family needs clear policies and practices that encourage stewardship values: mutual trust and respect, collaboration, transparency, shared goals, and active engagement. Many families rely instead on the carrot-and-stick approach—attaching inheritance to strict rules regarding behavior or issuing a values-and-mission statement to compel altruistic behavior. Such limited efforts are rarely enough to ensure stewardship without teaching, reinforcement, and modeling by the entire family.

As more people enter the family—by becoming adults or marrying in—they should be offered opportunities to learn and voluntarily agree to the family culture's principles without feeling coerced into passive acceptance. This is an active, ongoing process of learning, accepting, and acting not just by a few, but by a substantial number of individuals in the extended family.

A Model: Phase 1 (Phases 2 and 3 will be discussed in subsequent article)

To further assist in building a culture of stewardship, the authors propose a three-phase development model, based on supporting emerging roles as a steward, a contributor, a leader, and an elder. Once young family members understand the responsibilities and qualifications of each role, they can embark on a path that builds a family stewardship culture.

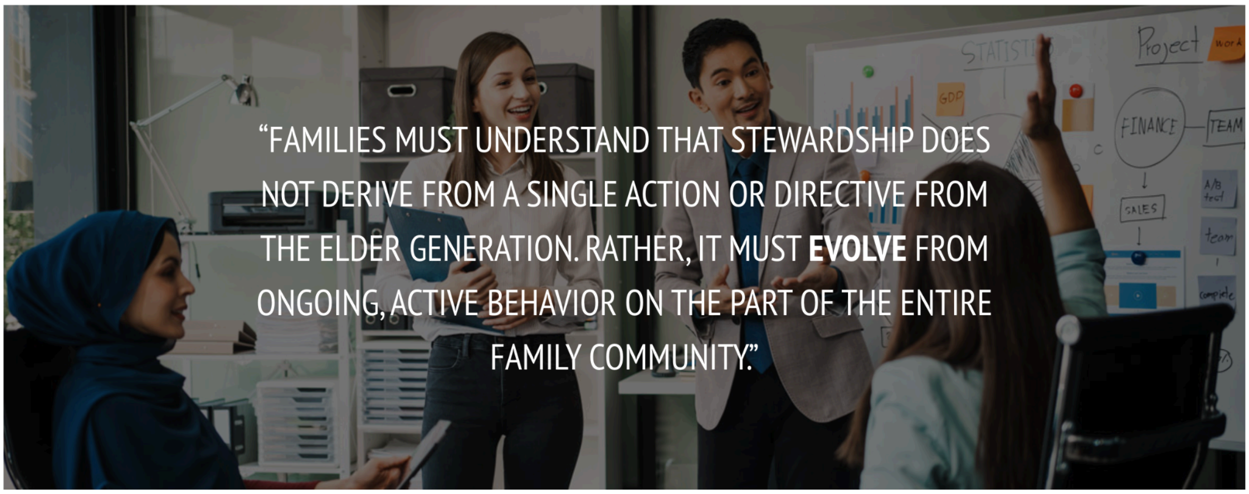


Set Baseline Expectations for a Family Steward

A first step is for family members to understand what stewardship involves and knowingly commit to it, since the family culture can only be sustained if its members agree to take on its specific responsibilities. For example, new family stewards might be expected to attend an annual meeting, serve on committees, or vote on key issues. In all cases, new stewards are expected to understand the basic nature of the organization and be financially literate about the structure and nature of the business and shared assets. But they must agree to actively respect these expectations.

Since wealthy families often contain several branch households formed by each new generation, it can be useful to see these branches as a type of tribe. Tribal cultures typically contain policies and rules that govern how the tribe works. New or younger family members are expected to follow the tribe's rules and prove themselves worthy of membership in the leadership group, i.e., the elders.

The first step in becoming an elder is to become a steward. When they ultimately become “stewards,” family members demonstrate skills and knowledge and agree to live within the culture. Becoming a steward may be celebrated by a ceremony welcoming individuals into tribal citizenship. At this time, they may be asked to demonstrate their knowledge and skill in some visible way and to pledge to adhere to the values, rules, and expectations of the group. This all-family celebration is one way to answer the concern of parents regarding how to create responsible offspring. If their offspring are honored and accepted and the community spells out what is expected of them as stewards, then it is clear how they are being called to behave and why. In effect, this transfers the responsibility for their adult behavior from their parents to the whole tribe.



Over succeeding generations, the extended business and financial family becomes larger, more dispersed, and less connected. Cousins do not always know each other well. The family must anticipate this and encourage all family members to know each other and sign on to uphold the family’s mission, culture, and values. To do this, they need a baseline statement of what stewardship requires to become beneficial family members—in terms of actual behavior and not just as an empty intention.

Some baseline statements specify behaviors and capabilities expected of a newly adult or married-in family member before becoming a fully accepted steward and enjoying the benefits of the family’s wealth. Such a statement often includes the following:

- Understand and agree to live by the family’s shared values.
- Attend and be active in family events and activities.
- Adhere to family rules for communication, personal relationships, and social media.
- Understand the family’s business, financial, trust, and governance structure.
- Create and follow a personal plan to develop skills that could make a positive difference.

The new adult tribal member is asked to demonstrate capability or adherence to each of these capabilities.

Resources for Learning Together

For these behaviors and actions to be fully acted upon and realized, the family would provide resources for active learning. These resources can be workshops and learning sessions, stored online, for each area listed. Other resources might be internships and training programs or internal briefings about the nature of the family assets and how they are structured.

By learning together, the family gets to know each other and can consider questions, concerns, and reservations before coming to agreement. With this process, the family commits to active implementation of stewardship behaviors. It performs the critical task of initiating people into the family culture and celebrating their membership in what is an exclusive club.

The next article, Part 2, will include a discussion of Phases 2 and 3 of the model.

Reference

[1] Block, Peter. *Stewardship: Choosing Service Over Self-Interest*, 2nd ed. San Francisco: Berrett-Kohler, 2013.

About the Contributors

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NEXTGEN

How Wealthy Families Can Instill a Culture of Stewardship
Part II: From Value Contribution to Leadership—Increasing Engagement in the Rising Generation

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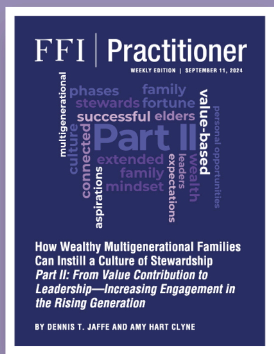

From *FFI Practitioner*

The second part in this article by Dennis Jaffe and Amy Hart Clyne picks up where Part I ends. After satisfying the requirements to become new family stewards, the stewards enter a "journeyman" period, learning to be productive and engaged members of the family culture of stewardship.

Go **here** to read or reread Part I, and read on for Part II.

To move the new stewards forward in their journey to be engaged in the family culture of stewardship, Jaffe and Clyne suggest the following:

Encourage Value Contribution and Increased Engagement

A culture is created continuously. In other words, a family culture is not "declared" or created in a one-time event. It is formed by the daily actions of family members who affirm and support the family culture. Consequently, after new members have been named as stewards, the family expects them to take on roles in the family governance or other important family activities. The elders should not expect, however, that initiation as a steward will automatically lead to steward-like behavior. New members who become stewards of the family culture must be actively engaged and shown ways to make the family values come alive.

For this to happen, new members need to know what roles are available, what they require, the activities and tasks involved, and the process for taking them on. (Often these roles are part-time.) This knowledge is how the rising generation learns and shows itself ready for greater family responsibility. Even if they work outside the family enterprise, only work part-time within the family enterprise, or are raising a family, new stewards need to become involved. Moreover, if the family expects stewardship behavior, the family members themselves must exhibit these behaviors through personal interactions as well as through what they teach and ask.

Examples for Creating Increased Engagement

Almost any business family, even a small two-generation one, can create roles to add value to the family culture. Typically, there are appointed roles and voluntary roles.

Appointed roles may include becoming a board observer, serving on committees that do the business work of the family, e.g., the family foundation, the family council, or the family office. In these roles, young family members demonstrate interest and capability as future leaders, sharing ideas and working across generations. Although professional and fiduciary boards often require specific experience, they also can offer eligible new members paths to gain experience.

Volunteer roles can also be established by the elders or created by new family members. For example, families might design a volunteer position for a family historian, membership on a committee organizing an annual family retreat, or becoming an observer at family office or philanthropy meetings. Sometimes young family members will suggest new roles, e.g., young family members who have graduated from business schools or worked in finance might suggest a task force to investigate environmental activities that can be both profitable and ecologically helpful. The family sometimes adds compensation to these activities to show how much the tasks are valued.

To facilitate engagement, some families appoint a Family Learning Committee to organize engagement efforts. The chair of this group, often called the Family Learning Officer, is a resource for family members who want to become involved in family governance. The Family Learning Office or Family Learning Committee can define potential roles and their availability. Family members learning of these options can state specific interests. Then the Family Learning Committee can collaborate with them to assess when they are sufficiently prepared for certain roles and ensure that their candidacy is known by those who would select members.

The Family Learning Committee may create a "ladder of service," defining the path from interest to leadership. This path contains many options on the path forward. Too often families only consider the first and last steps, leaving younger family members confused as to how they can prepare to serve. This committee makes that path transparent and encourages family members to lean into these opportunities.

Reset Leadership Roles for Rising Generation and Elders: Next Steps

The above activities allow the family to evolve with young family members learning and demonstrating their capacity for leadership. The next steps facilitate the gradual shift of responsibilities and authority to the rising generation. The family must specify a correct time for the rising generation to enter each leadership role. For that time to arrive, a parallel process must occur in which the elder generation steps away from those leadership roles.

The mistake of some families is acting as if the older generation's term of office is forever or until they decide to step down. This means that the rising generation must wait with no clear sense of how or when they can become leaders. Such uncertainty can be deflating, even toxic. Jaffe and Clyne suggest that board membership and leadership positions contain term limits. Or there might also be a set retirement age. Setting specific terms of office enables young people who have already demonstrated skills and capability to step into leadership roles and set an agenda for the future. Although an elder can give up a voting role and still attend board meetings as an emeritus member, at some point it is more relevant to discover what the rising generation wants to see rather than ask what the older generation thinks is best.

In this model, two parallel processes allow stewardship and leadership to evolve within the family culture. The first process involves appointing a new generation of leaders and the second defines mentor roles for elders. Both processes are necessary, and they are co-dependent. The shift in leadership is often gradual as roles change at different times. There is often a long period where the two generations share leadership.

Suggestions for Implementation

Jaffe and Clyne's suggestions for implementing the two processes are as follows.

> ### Appoint a New Generation of Leaders
>
> Each generation needs a new vision of the family enterprise that inspires the rising generation to engage. For this to happen, the family needs to look outward and envision its future in a way that builds upon its legacy and values—not just looking inward to recreate the past. The family must ensure that new leaders are selected with the future vision in mind. Then, as new leaders emerge and begin to have their voices and visions heard, both the older and younger generations can create an alliance that supports the legacy and builds on new ideas. As these rising leaders gain experience and mature, they develop innovations that allow the family and its businesses to evolve. This is family entrepreneurship, a source of vitality in family enterprises.
>
> Despite the promises of evolution and entrepreneurship, there can be problems. For example, there can be a disconnect between the time when the younger generation is ready to assume leadership roles and the time when the elders are ready to step down. Today, elders live and work for many more years than previous generations, so when is the right time for them to move aside to make room for new leadership? The model proposed here is that the family does not prepare for succession at some mythical future time but engages in an ongoing dialogue across generations to balance the legacy with new projects and ideas. The elders have formal control, while the rising generation holds the key to realizing a new vision.

> ### Define Mentor Roles for Elders
>
> The path to stewardship is long, with many exciting phases and stages over a lifetime, culminating with the role of the elder. Nonetheless, a common obstacle to successful multigenerational wealth transfer is

an elder who is slow, avoidant, or resistant to pass the reins. Stewardship can be strangled by this inertia and inaction and frequently results in a lack of motivation on the part of rising leaders.

With multiple generations living concurrently, it is critical that a family defines how its elders can stay engaged and contribute to the longevity of the family legacy without stifling the energy of their offspring. Being a mentor is an often-overlooked solution. This frequently missed step should be initiated and be supported by trusted, long-term family advisors. Their understanding of the family and its systems gives them a keen sense of how the elders can make room for and support new leaders, while at the same time gaining a sense of purpose and identifying new paths forward for themselves. Across the family spectrum, the journey that instills this kind of stewardship mindset allows family members to have the best of both scenarios—strong family connections and an honoring of individual passions and pursuits.

Concluding Thoughts

Families that are concerned with how their children and grandchildren will use their inherited wealth and lead the family enterprise should take active steps to allow the family culture to change from the time when their children are young. Culture change involves much more than teaching financial literacy. The rising generation must commit to learn and enter their roles as stewards in the family, while elders need to welcome new leadership and ideas and accept new roles for themselves.

The generational shift in leadership means much more than naming new members to enter old roles. Family enterprises are continually changing, and the enterprises that the new generation inherits and leads are quite different from those of the past. This means new generations must bring new skills and fresh mindsets to the family in the efforts to support and strengthen the family culture.

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