



Preparing the Next Generation for Ownership in a Dynamic World

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“What should we share about our family holdings and when?” This may be one of the trickiest and most frequently asked questions that wealthy parents (or guardians) worry about. Many parents are reluctant to share information for fear it will have a negative effect on their children, such as undermining their motivation to become self-sufficient or causing them to feel entitled.

The question of when to share information is truly a paradox. On the one hand, it makes sense to share information over time as children become ready to handle it. This approach can help them build a sense of what’s ahead as future owners—a context—and prepare to learn more as they mature over time. On the other hand, it’s challenging to know which of your children are ready for what information at what age. Clearly, there isn’t a one-size-fits-all answer that parents should teach X when their offspring reach a certain age and tell them about Y when their kids reach another.

It’s possible that there isn’t an answer to this question that is particularly helpful. Instead, it may be more fruitful to focus on a different question: “How can we best prepare our children to be successful owners?” This question shifts the focus from thinking about the content of a few isolated conversations to the search for a systemic approach to guide the family’s efforts over time. A systemic approach to preparing the next generation places the whole network of family relationships at the center of the learning process. It also incorporates multiple modalities, given the need for a sustained effort to cultivate the robust set of qualities, knowledge, and skills required for the next generation to become responsible and accountable owners.

Before we delve into the elements of the approach, let’s consider some of the human capital development opportunities and challenges facing families that have shared ownership and explore the importance of thinking systemically.

The Current Landscape

In the last several years, many advisors have begun to emphasize to families the need to invest in the development of their human capital with no less rigor than they devote to the growth of their financial capital. Based on recent data, there's an enormous opportunity for families to expand their focus on human capital development. In its 2017 Family Office Study, the Family Office Exchange found that on average the families they surveyed spend \$1M annually to protect and grow their assets for every \$100 million of assets they own. They also discovered that the average family invests a minute proportion of that, only \$30,000 per year, on the development of the next generation.ⁱ

One way of addressing this substantial shortfall in human capital investment is for families to take a systemic approach to developing the next generation. Whether that is in the form of a formalized family learning committee or not, it is helpful to consider the context of the whole family and their shared assets. For example, it probably makes sense to expand thinking beyond the 20- and 30-year olds and consider how to support young parents, given the central role they play in raising the next generation. Furthermore, families will want to focus their efforts on developing the qualities and skills that will equip younger family members to actively contribute to the long-term success of the family and its assets.

In our dynamic world, one of the most important qualities families need to develop in their younger generations is the ability to manage change at the intersection of the family relationship system and the family economy.

The Role of Resilience

Resilience is a quality that is essential for critical thinking, addressing challenges that inevitably arise, and managing change. At Relative Solutions, we define resilience as, "the capacity of any system, organization, or individual to

absorb disturbances, positive or negative, without impacting the nature of the entity and its sustainability."ⁱⁱ It is a quality that is grounded in the notion that we will encounter challenges and make mistakes, and that what we learn from those experiences is a gift that makes us stronger. Resilience is not a rare talent or a genetic trait. Developing resilience does not require extreme hardship, trauma, or scarcity—anyone can cultivate resilience as part of meeting the challenges we all come up against in everyday life.

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However, affluence and the opportunities it provides can get in the way of developing resilience. Needless to say, money can smooth out some of the friction of life in the short term. Many valuable learning opportunities are missed when family resources are used to ease the way for the next generation. It can start when a child is young and money eliminates the need to muster internal resources to overcome small challenges. For example, if a child can buy anything they want at the Disney gift shop, they do not benefit from the opportunity to learn how to choose and prioritize what most matters to them. If they are given a modest budget for souvenirs, they can be active in the process of making a choice, sometimes to their regret afterwards, realizing that they would have preferred to make a different selection. This small "mistake" is a valuable learning experience that a child often remembers for a long time as they make other choices about how to spend money.

Affluence can also change family members' relationship to work when income from family assets is available to supplement or replace income from employment. This may mean that younger family members have limited opportunities to observe how adults in the family experience a sense of achievement and manage the frustration that comes with paid work. Or it may mean that a teen does not have the opportunity to work at a summer job in a workplace where they do not have the same last name as the owner. Learning the ropes and proving yourself as a good co-worker on your own merits offers teens and young adults the opportunity to become more aware of their strengths and weaknesses, manage the ups and downs of success and frustration, and understand first-hand what it takes to earn a dollar. These are experiences that the next generation may not have access to if they do not have an opportunity to work outside the family business or the family office.

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It is important that, over the long-term, family resources not shield individuals or the family system from experiences that increase their resilience and preparedness for the world. A young adult who has not had the chance to earn money through their own efforts, organize their tax information, and make personal budgeting choices may struggle to understand the complexity of their family assets or family office, for example. It also does not set them up well to feel competent in their personal achievements. If family members lack the wherewithal to face challenges and grow from them, the family's

assets may be exposed to significant risk from shifting economic or market circumstances. The development of resilience is, by its nature, an iterative process. We work on gaining a skill. En route, we not only learn some basic information, but we also have the opportunity to use it in context, find out what can go wrong, and learn how to resolve it. The "success" to be rewarded is meeting the challenge and learning from the experience, rather than any other measure. In the process, we gain self-knowledge and the confidence that we can resolve challenges in other situations.

Let's look at an important rite of passage— how we teach our kids to drive— to explore a widely used systemic approach that keeps parents at the center of the process, uses multiple modalities, and offers plenty of opportunity to develop resilience.

"Baby You Can Drive My Car"

Preparing our children to drive starts when they are quite young and observing how we drive. At the age of 15 or 16, the process gets more focused, including a combination of formal learning through a short course and close mentoring, where the hands-on work of learning to drive takes place. Parents usually provide this mentoring, doing their best to remain calm in the passenger seat. We offer support and guidance while our teen gains experience, starting out in parking lots then venturing out on neighborhood streets, main arteries and eventually highways. The learning— through trial and error— starts with the basics, such as how to stay centered on the road. It builds over time to include the development of skills and discernment, such as when the distance between cars is sufficient to make that left turn and how to maneuver a car into a parking space. Our teens tune in more closely to what we do when we sit behind the wheel. We recount all manner of driving experiences that have influenced us and listen to them talk about their excitement, trepidation, and descriptions of their friends' experiences learning to drive.

For many, teaching our adolescents to drive brings up a lot of anxiety even as it provides an opportunity to connect during a period when they are typically less open to spending time with us. We know that the ability to drive a car offers adolescents both remarkable freedom and unmitigated exposure to risks from their own miscalculations and the mistakes of others.



Over time, they gain experience and confidence. As parents, we try to expose them to a variety of different driving situations as they are learning. They eventually pass a test and we take a deep breath and watch them drive away on their own for the first time, knowing that they still have a lot to learn, and also knowing that we've done our best to prepare them. Now it is our job to trust them to navigate on their own, keep our worries to ourselves, and help them when they ask.

And while their horizons expand with this new skill, not infrequently, they will experience a flat tire, a torrential rainstorm, a scary near-miss, or a more serious accident. These incidents can be frightening, and at the same time they deepen our new driver's understanding of the risks they face and how to manage them— building resilience. We cannot shield our teens from these risks, but we can help them prepare to manage them and see the stress as an opportunity to allow them to learn and grow.

Reflecting on the approach widely used for preparing our children to drive, we can see that it incorporates five elements in the cycle of

learning: modelling, teaching the basics, dialogue, mentoring, and letting go. We can also see that these five elements are not necessarily employed sequentially; the five elements are used iteratively over time.

A Systemic Approach

A systemic approach that we use to teach our children to drive can serve as a template to guide the preparation of the next generation from an early age. A systemic approach not only teaches skills, but also helps to cultivate resilience; it incorporates the need for learning by doing, and anticipates the need for iterative learning that includes facing challenges, thinking critically, and developing increasing trust in one's ability to meet future challenges. This systemic approach also honors the central role that parents or guardians play, helps to strengthen the next generation, and builds relationships between older and younger family members.

Let's look at how each element of this approach can be applied to preparing the next generation for ownership:

1. **Modelling:** From an early age, children observe how we express our values around work, play, and money through our behaviors, including how we spend our time.ⁱⁱⁱ They also watch how other people use their time and handle money and are exposed to many cultural influences that provide messages about money and work. To harness this powerful form of teaching, it is helpful for parents to periodically reflect on the messages they received as a young person about work and money and those they want to convey to their children through their actions. Periodically, they may want to step back and see if their actions indeed match their intentions. Also, parents can explain out loud why they are making certain decisions so that their kids hear and see the messages together. Ideally, parents are fairly aligned around their values or at least aware of where they are not aligned so that they are not giving mixed messages to their kids.

2. Learning the Basics: For every developmental stage there is a body of knowledge about financial and economic matters in general, and about your family enterprise specifically, that's appropriate and relevant. It is helpful to create a culture of learning that is connected to basic financial matters.

At younger ages, parents can help their children learn to distinguish between needs and wants, and convey how the family uses money and allocates their time to make their lives and the lives of others better. As kids get older, parents can help their children learn how to set goals for spending and saving their own money, how much everyday things cost, and how to calculate the interest they will earn on money in a savings account. The goal here is to teach them the value of a dollar.

As children reach adulthood, there are more learning opportunities that can be developed for the next generation as a group, opportunities that promote bonding of the siblings and cousins. Parents can invite advisors and professionals to help plan family learning sessions that are more targeted to the family as a whole, such as delving into the activities and budget of the family office, examining how the family's philanthropic values are expressed through grant-making, reviewing the family's governance structures in the context of what it means to be an owner, and gaining insight into the family's approach to investing. Learning together deepens relationships while enriching knowledge and providing context for the information.^{iv} Living to learn is one of the characteristics of resilient people and systems.^v

3. Dialogue: Conversations about work, money, and family assets invite curiosity and demonstrate respect for children's ability to

be trusted with important and private information. Curiosity and having another believe in you are two characteristics of resilient people and systems.^{vi} Parents can talk about how their values inform their earning, spending, and investing decisions and tell stories about their experiences with work and money. The stories can include what went well and how you managed when you were in a difficult situation. Many adults find it difficult to talk about money because of expectations set implicitly or explicitly by their family and society. Exploring the messages we received about work and money growing up can be a helpful first step in becoming more aware of our own values and assumptions and about the role that work and money play in our life and relationships. A tool such as 21/64's "Money Messages" can be helpful in getting the conversation started.

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Another important topic is articulating expectations for the types of expenses parents will cover when the children are younger and as they get older. As our children become young adults, it is just as important to communicate expectations for what they need to pay for themselves. Having clear expectations at each stage of development helps children develop a realistic perspective of their personal financial wherewithal.^{vii} This in turn promotes the development of resilience.

4. *Mentoring and Side-by-Side Experience:*

A fundamental part of gaining complex skills requires learning by doing and having opportunities to make mistakes in a low-stakes environment. As with teaching teens to drive, sometimes parents are the right mentor, and sometime another family member, family friend or professional is a better fit. A third party can sometimes provide a less emotionally charged environment that makes room for the child to more freely embrace new challenges.

When done well, mentoring provides a fertile opportunity for experiencing the stress of learning something new as a positive experience. Through the process, mentees gain a more realistic perspective about their skills and interests and what it takes to be a good steward.

Exactly what these opportunities look like depend upon everyone's interests and the nature of your family holdings. Are there family decisions that your kids can take the lead on, such as planning a major birthday party or a family vacation? With a set budget, the kids can look at the different options, gain an understanding of the organization and coordination required, and learn about making tradeoffs. Family philanthropy is another area where the next generation is often allowed to take on key roles at a younger age, with the goal of learning by doing. Ideally, next generation family members are mentored by different people at different stages and experience a series of opportunities to learn by doing.

4. Letting Go: Letting go happens little by little, over time. It is an essential step that is taken when a next generation family member has gone through the process of mentoring and has had opportunities to meet a variety of challenges and learn from their mistakes. It is a recognition that they have enough skill in a particular area to take on a responsibility and continue learning from their experience. Just

like when a newly licensed teen drives away on their own for the first time, it is a little uncomfortable. But at some point, the next step in learning is to have the opportunity to muster your own resources to find your way. When parents offer that vote of confidence by letting go, they provide an opportunity for their children to make their own decisions and manage the consequences. It can mean that a college freshman independently manages their monthly expenses in the context of an annual budget, or a young adult is offered the responsibility of leading the research on a potential new grantee.

Unique Challenges

While nearly everyone learns to drive, relatively few families take on the complex effort of preparing their children to become decision-makers for family holdings. The five elements of this systemic approach— modelling, teaching the basics, dialogue, mentoring, and letting go— can be drawn upon to design a learning plan for building a range of competencies, such as teaching your emerging adult children how to work with an advisor or how to plan a service experience for the next family meeting. The elements can serve as an informal toolbox for parents or be used to create a dialogue among young parents to coordinate their efforts to prepare the next generation and capitalize on the enormous learning opportunities that are available when children are young. It can also be applied at the level of the larger family when the next generation reaches their 20's and 30's and are beginning to get involved in the family governance structures.

This approach is both time-tested and aligns with what we know about resilience. It can help build the capacity of the next generation to quickly rebound from setbacks and to become stronger as a result of the experience, a quality that is essential in our dynamic world. It builds family human capital in a way that aligns with the long-term needs of the family without getting stuck in a dilemma of what to say when.

ⁱ 2019 FOX Foresight, “Investing In The Family Through A Family Learning Committee”, Family Office Exchange, Chicago, IL, page 2

ⁱⁱ Fredda Herz Brown, Ph.D., “The Essential Roadmap: Navigating Family Enterprise Sustainability in a Changing World,” page 8.2 ⁱⁱⁱ

Meltzoff, A. N., & Williamson, R. A. (2017). Imitation and modeling. In: M. M. Haith & J. B. Benson (Eds.), *Encyclopedia of infant and early childhood development: Reference module in neuroscience and biobehavioral psychology* (pp. 1–10). London, UK: Elsevier.

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4429617/>

^{iv} <https://www.forbes.com/sites/freddaherzbrown/2019/01/31/passion-and-emotion-in-as-well-as-for-learning/#61d06f2a78ee>

^v Fredda Herz Brown, Ph.D., “The Essential Roadmap: Navigating Family Enterprise Sustainability in a Changing World,” page 8.4 ^{vi}

Ibid

^{vii} Fredda Herz Brown, Ph.D., “The Essential Roadmap: Navigating Family Enterprise Sustainability in a Changing World,” page 8.6

About Relative Solutions

Families who share assets must successfully manage the joining of their emotional and financial lives. Relative Solutions guides families through the difficult questions that emerge from the shared risks and opportunities that impact their lives together.

We provide a structured space that is neutral, objective, and conflict-free, so a family’s best thinking can emerge to solve their most pressing challenges. Leveraging our proven process, families get the sense that change is possible, and are able to embrace tailored, practical solutions that have a substantive and lasting impact.

