

The psychology of succession

Keeping a family fortune intact is not just a matter of good investment practice or legal structures. The concept of stewardship is key, says INSEAD professor Randel Carlock

Some say that inheriting a fortune is a burden. Is that really so?

Spoiled children and parents who use their wealth to bully or control their heirs are journalistic clichés. But certain psychological truths do underlie these stereotypes. Wealth does create psychological issues. One is a sense of powerlessness – if your father is a great entrepreneur, what's your act going to be – and another is a feeling of unworthiness in the heir – what have I done to deserve or create this wealth? These syndromes can create great psychological pressures. A sense of dependency, fostered by wealth, can also interfere with 'differentiation', the process of becoming an autonomous adult. In this sense, the psychological issues around inherited wealth are built-in and structural rather than limited to any specific family.

What can families do about these factors?

It's important to be clear about the values that you are raising the children on. In traditional societies, grandparents remain part of the household and help to inculcate the family traditions. In the West, with its emphasis on independent thinking, we have more of a challenge. Especially for wealthy families, economics tends to drown out all other signals, whether social, ethical or political. So communication within the family is vital. This is particularly important in wealthy families, because preserving wealth across generations requires good planning. My big three priorities would be values, communication and planning.

Some families manage to preserve their identities for many generations. What are they doing that the others aren't?

There are no absolute prescriptions for either families or family-owned businesses. Each family has to craft the

solutions that are right for that family. That said, two factors do stand out. First, the process by which families make decisions is important. Families with a well established process of meeting together to discuss key issues will tend to make more right decisions than wrong ones over time. Secondly, families with a long history tend to have an emphasis on stewardship. By this, I mean a focus on leaving the family's assets in better condition than when you inherited them. Stewardship involves two dimensions. The first is to manage and grow the assets themselves, be they financial investments, a family business or a foundation. The second is equipping the next generation with the skills and abilities to carry on the tradition.

That's an interesting concept. Can you give some examples of stewardship in action?

Most long-standing family firms have a stewardship mindset. Look at the Rockefellers. They haven't been involved in the management of Standard Oil, now Exxon, for a century or so but they are still significant owners. Recently, though, they've put pressure on the Exxon board to get more involved in alternative energy. A successful family gives back to the community. But there's another twist to stewardship too. It's also good for the family, by combating that sense of helplessness and unworthiness that I mentioned above. Instead of buying your daughter a Ferrari, you send her to Africa for a year with \$75,000 to set up a food programme. After a year, she's become an excellent young manager with



a good understanding of what wealth can do. So many families fail to leverage both their money and their talent as effectively as they could. But some do.

Where does formal wealth planning come into this picture?

The real challenge in passing on wealth and values between generations is not really one of legal structures, tax planning and smart investment. Before getting to that planning stage, families need to establish what their wealth means to them, what they want to do with it, and what designs they have for it. Only after a family has decided on these key questions can their professional advisors – their bankers, lawyers, and tax consultants – draw up the structures and investment strategy that will meet their needs and get them to their destination. /

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