BEYOND THE NUMBERS

Illustration by Francesco Bongioni

Caroline Raeber-Piraud and **Valerie Remoquillo-Jenni** consider how wealthy families can use philanthropy as an inclusive and rewarding platform for promoting shared values across generations

'It was strange, all my friends and me finding out at the same time how rich my family was. I felt I was learning a secret that I wasn't supposed to know.'
Jamie Johnson in *Born Rich*, on discovering his family's wealth in fourth grade from the Forbes 400 list of the richest Americans

THE WEALTH and estate planning industry is vast and thriving. STEP's membership numbers more than 17,500 from 84 countries, suggesting that competent advice on preserving and managing wealth is sought-after and needed. In emerging economies, particularly in Asia, today's ultra-wealthy are likely to be of the first generation, and the transfer of wealth to their children will take place in the next ten years. Without a long history of wealth preservation to draw upon, many are anxious about how prepared the next generation is for money and, more importantly, the responsibilities that go with it. Specialised advice will be crucial.

The future of families lies in nurturing their human assets as much as their financial ones. Parents worry about the impact wealth will have on their children. Family fortunes can become the children's misfortune. As the candid reflection of Jamie Johnson, a scion of the Johnson & Johnson clan, reveals, children from rich backgrounds might not be aware of their wealth and often have to wrestle with the responsibilities it entails. As a result, some run into problems of extravagant spending, a lack of direction and ambition, and poor self-esteem from living in the shadow of a successful parent. Their privileged upbringing can breed dependence, a sense of entitlement and even guilt. Coping with a crisis of purpose, owing to not having proven themselves and not needing to struggle to earn their wealth, is a challenge for most of the young rich.

Many heirs are unhappy with the way wealth is transferred in their families. In the 2012 study *Next Generation Wealth: The New Face of Affluence*, a quarter of young members of ultra-wealthy families, aged between 30 and 39, are unhappy with their families' investment decisions, and nearly half of them do not agree with their families' plans for wealth transfer. The dissatisfaction shows a clear disconnection between generations. For some, the coming of age happens at 18, when young heirs are confronted with preparing a last will and testament, and are informed about their inheritance, prenuptial agreements and the like. The entire legal infrastructure may come as a shock to them. Some, especially women, are uneasy about their wealth. The same study on next generation wealth notes that 79 per cent of younger women are highly concerned that money can complicate their relationships with spouses, friends and colleagues.

Preserving wealth

If a family desires to thrive for generations, it has to view wealth as a means to an end: the fulfilment of its members. Preserving wealth is aimed at building a secure and comfortable future for the family, which can then uphold and continue meaningful traditions, heritage and values. Usually, a good place to start is a mission statement. As a written guide, the statement articulates the collective values of family members and distils the virtues that matter to the family. Putting these into practice is a bigger challenge. Parents must aim to lead by example, demonstrating to their highly observent children not just in words but also through their actions. This also involves creating opportunities for children to develop values in their own lives, be it through a summer job to learn about hard work, or a school fundraising bake sale to build compassion. More importantly, parents should encourage their kids to see the world outside their gated villages.

Philanthropy and family values

Philanthropy is a natural way to instil family values, translating into action what families cherish about their communities and about themselves. It is an effective way to establish a family legacy and harness the spirit of giving in children and grandchildren. It helps to unite family members and to give back to the community where the wealth was created. In the US, family charities gave over USD20 billion in 2010, comprising over 60 per cent of all foundation giving. In the UK, the top 100 family charities alone gave GBP1.3 billion – 7 per cent of all private charitable donations.

In comparison to more ad hoc and informal donations, when correctly managed, charitable family foundations offer a structured and systematic approach that can deeply enrich each family member's commitment.

Money management

Children can be involved in philanthropy at an early age. Once they understand the value of money, they may be encouraged to set aside a percentage of their allowance to be donated to a charity of their choice. One educational tool for developing early awareness of money management is Kinder Cash (www.kinder-cash.com), a learning kit that comes with a piggy bank with separate compartments for spending, saving, investing and donating. There are many other mechanisms available to parents to instil financial responsibility, including through personal coaching on financial literacy and in participation of young members of families in family investment boards. We have also found that dedicating a specific amount to the children, for a fixed period in which they have controlled investment responsibility, is excellent hands-on training about markets, performances and strategies.

Learning through giving

One of our clients is a Scandinavian family whose patriarch annually gives USD250,000 to his family's charity. His grandchildren, ranging from 15 to 25 years old, are encouraged to identify projects that match their foundation's mission in health and education. The best projects will be funded by the annual pot. By Christmas, each child presents a selected charity at a family gathering. The entire family then votes on a number of worthy projects. This helps children become aware of their responsibility to share their wealth, while teaching them how to review, screen and advocate for projects. The experience is as rewarding to the young giver as it is for the charity that benefits.

A common thread

The National Center for Family Philanthropy in the US believes that 'allowing a child to establish and pursue his or her own philanthropic agenda can be a valuable way of both reinforcing the importance of giving back to the community and allowing them to exercise their independence'. One challenge for multi-generational families is a resistance on the part of the older members to grant such flexibility to the younger ones. We have advised a family where a dominant patriarch opposes his grandchildren's involvement in the family's philanthropic work. He was concerned that the youngest generation did not share his political and spiritual views and was convinced they were better off not knowing much about their wealth.

We interviewed each family member to find a common thread among their personal values, aiming to identify areas where the family could focus its giving – a decision that was previously handled exclusively by the patriarch. This gave everyone a chance to voice their opinions and feel that their thoughts and participation were important. A family constitution, which gave the younger generation representation in family decisions through a junior board, was developed. When the grandchildren are ready, their involvement can be expanded. As Ellen Perry states in 'Passing on values to the next generation' (in *A Family's Guide to Wealth: Insights from thought leaders and pioneers*, Genspring, 2009), many disagreements are not so much about a difference in values as about the varying ways each member or generation expresses them. However, a commitment to honour and accept individual choices and beliefs can keep families together.

The patchwork family

The non-traditional, patchwork family that brings together children from previous marriages can have its own conflicts, even among members of the same generation. One case we have encountered is the family of a philanthropist who supports conservation. The children from his first marriage showed a lack of responsibility for their wealth. In contrast, the younger children from his second marriage are being raised in the dark about their fortune, as their parents have chosen not to disclose it to them yet. Finding a way to link these two sets of children, to not only share a parent but to become responsible stewards of their family's wealth and philanthropic work, is every parent's desire. The trusted advisor can mediate between the different interests and values that threaten to widen the divisions of the fragile patchwork family set-up.

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Finding parallels

One family decided to establish a foundation in 2009 to structure their charitable giving. Through workshops we determined that their passion for entrepreneurship as an answer to poverty tied neatly with their rags-to-riches story, and this became the focus of their philanthropy. Their children will soon be teenagers, and are slowly being exposed to the work of the foundation. They exchange letters with young students from Kenya who benefit from the family's scholarship programme. Apart from being an excellent project monitoring tool, this interaction builds the children's awareness about the world beyond their home, while letting them trade stories with other children. As they become young adults, integrating them into the foundation board is a mid-term priority.

Shared values

A family's future rests on a foundation of values that are as cultivated and planned for as its wealth. Family governance mechanisms can create smooth dialogue within a family, especially between generations, while philanthropy can be a meaningful, inclusive and rewarding way to promote these shared values. ■

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