The Dilemmas of Family Wealth

INSIGHTS ON SUCCESSION, COHESION, AND LEGACY

JUDY MARTEL

FOREWORD BY JAMES E. HUGHES JR.

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The Dilemmas of Family Wealth

Insights on Succession, Cohesion, and Legacy

by Judy Martel

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The Dilemmas of Family Wealth

INSIGHTS ON
SUCCESSION, COHESION, AND LEGACY

BY

JUDY MARTEL

WITH A FOREWORD BY JAMES E. HUGHES JR.

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Editor's note: Some of the families in this book who did not wish to be identified by name also requested that a few details about their families be changed to protect their identity. The experiences that such families are relating for the purposes of illustrating dilemmas they faced, however, have not been changed.

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To the many families who readily shared their personal stories with me, and without whom this book would not have been possible

To Jay Hughes, for his enthusiasm and gentle advice

To Jared Kieling and Bob Casey, for their guidance and patience

And to my husband, Bob, always, for his loving support

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FOREWORD

It is both an honor and privilege to write the foreword to Judy Martel's book *The Dilemmas of Family Wealth.* As I begin this work, two quotations come to mind: Churchill's description of Stalin as "an enigma wrapped in a paradox" and Santayana's statement that "those who fail to study history are condemned to repeat it." A book on human and family dilemmas suggests that underlying the issues posed by the predicaments must be deeper fundamental issues of human behavior that cause these dilemmas to emerge in the first place. Equally, their successful resolution must be based on time-tested behaviors that can be discovered, as Judy Martel has done, through the wisdom that comes from studying the experiences of others who have faced similar situations.

In the case of the dilemmas posed here, I believe the underlying issues that cause them are a set of paradoxes in family behavior that replicate Churchill's enigmas [dilemmas] wrapped in paradox. Similarly, because some of the paradoxes of human behavior in families have been described in writings as old as our earliest written texts, Santayana's admonition comes home to roost if we fail to study the history of human behavior they recount.

The first and most profound human behavior underlying the dilemmas is described in the proverb "shirtsleeves to shirtsleeves in three generations." In my lifelong journey studying and serving families with financial wealth, I discovered early on that this proverb is culturally universal. Sometimes it is expressed as "clogs to clogs," as "rags to riches to rags," as "rice paddy to rice paddy," and on and on, depending on the culture trying to express it. In all its forms, it describes a process of the creation of a financial fortune in the first generation, the plateau or stasis of that family's financial growth in the second generation, and the consumption of the family fortune in the third, with the fourth generation back in the "rice paddy" pulling rice. The proverb sadly offers only a negative prophesy with no hope for a family's reprieve from its profoundly depreciated outcome.

In my studies and observations of hundreds of families, I have learned that this proverb is not only universal, but it is also as old as writing itself. It is likely, therefore, that it is *prehistoric* since I don't believe human behavior changed just because someone began describing it in writing.

The proverb expresses, in its negativity regarding a family's ability to maintain its financial capital for more than three generations, a universal law of modern physics—the second law of thermodynamics, or the law of entropy. In physics we know that all matter materializes from the energy that forms the universe and that it will undergo the process of friction and decay, called entropy, as the material gradually returns to energy. Of course, this can occur spontaneously as fission and wipe out the material in an instant. This can also happen to the materiality of families. But through the process of fusion, this process might be suspended indefinitely, a very nice thought for families seeking to avoid the effects of the law of entropy as expressed in the proverb.

The law of entropy as it applies to families, as with all other forms of energy, is immutable, but it says nothing about how many generations of a family may live and die before it comes true. For this reason, free will enters the picture. It is true that every family's destiny is to eventually disappear, as entropy predicts, but nothing says when. Herein lies every family's choice and the dilemmas Judy Martel describes help us make many positive choices as we seek to resolve them.

Our negative proverb expresses the law of entropy as it applies to the life cycle of a family's financial capital. It describes the materialization of financial capital through the creativity of the first generation, its plateau in the second generation as the creative energy dissipates, and then the friction or entropy of consumption in the third, with the energy of the financial capital fully dissipated by the fourth.

The laws of physics and the universality of human experience make competing with the proverb's verdict regarding the ability of a family to maintain its financial capital for more then three generations highly unlikely. Yet, there are families who succeed. Why and how do they do it?

I suggest that it is through a long sequence of linked transitions in which each succeeding generation seeks to find and replicate the creativity of the first generation. Each member of the subsequent generations does so by discovering his "work" as calling—not necessarily having anything to do with wages—and mastering it. In this way, each person becomes as fully self-aware, individuated, free, and awakened as possible. Then, by applying what they learn together toward dynamically stewarding and conserving the wealth as great second-generation members so that the capital never plateaus, the family never reaches the predicted third-generation reality of financial dissipation, reflected in lives that are unrealized and unaware. Families seeking to work through and live out the process successfully create systems to enhance their joint decision-making so that each succeeding generation can together make the horizontal social compact necessary to govern itself and avoid the result the proverb prophecies.

What are some of the issues families must concern themselves with when creating such governance systems? They must (a) discover who makes up their family systems of affinity and (b) they must understand family systems theory concerning how families actually operate in increasingly complex structures of decision-making as their demography naturally increases and decreases.

Failure to know who actually is a family of affinity member and how that person engages in the family decision-making process dooms a family to the chaos that always ensues when any system cannot gently and naturally evolve to higher levels of complexity. When a family system does not appreciate its nature and, therefore, cannot maintain its natural order when it is shedding its skin to grow larger and deal with more difficult issues, it will fail. A further problem for families in understanding their systems lies in defining who is in a family of affinity. All too often the family defines itself too narrowly, leaving out its mentoring trustees and its *personnes de confiance,* thereby excluding from its decision-making process some of its greatest resources and wisdom on how great families come to be and what processes they employed to achieve and maintain that status.

Families must be able to recognize the transitions they are in if they are to understand where and how they are currently at risk for the proverb's entropic prophesy. If a family is to reach its fourth and fifth generation in good shape, and go on from there (my definition of a great or successful family), the first thing it must do is imagine that it is in a 200-year process. Why 200 years? Well, given modern life expectancy, it will take at least a century for the third generation to be born and die, and if we add the fourth and fifth generation, to ensure that we really have a system of joint decision-making that is avoiding the effect of the proverb, we quickly reach a 200-year horizon. As soon as we begin to think this way, we see that no current transaction—financial or otherwise—is likely to be critical to the outcome of the family journey provided we approach every decision as second-generation dynamic steward-conservators seeking to bring creativity to our long-term decisions. What we need to do is bring to our 200-year process some time-tested tools for making good joint decisions. The best tools I know are the following:

First is my father's admonition "where is the beginning?" All too often, families don't take the time to think through where their current transition really began and what the characteristics of the transition are. Equally important, they often fail to perceive that a new transition hasn't begun just because a new generation may have reached adulthood. And even more often, they fail to perceive when a transition ends and waste valuable time beginning the "new" instead of fully closing out the "old," thus burdening the new with unfinished business that constantly creeps into the new's progress and stifles it. Families can gain much positive ground avoiding the proverb's effects if they study themselves in light of the proverb as organic entities in order to know where in the life cycle of the generations they are and the transitions these stages represent, and then by applying their joint decision-making to that reality.

Second, families must do "Seventh Generation Thinking," following the wisdom of the Iroquois elder who begins every tribal gathering of this now over six-hundred-year-old family of affinity with the admonition "Let us hope that the decisions we make today will be honored by our tribal members seven generations from today." This is perhaps the best tool I have ever encountered for long-term family success.

Third is "hasten slowly." Time is a family's best friend in 200-year transitional thinking. But as with all friends, treat them with great kindness and do not waste their gifts. Fourth and finally, remember that it is the Tortoise who wins long races and the Hare who runs out of gas.

When families understand their systems and their transitions as they seek to govern themselves well toward reaching their fifth generations in good shape, and to go on from there, what are likely to be the most difficult issues for them to contend with?

I have come to believe that they constitute a group of paradoxes. Paradoxes because the thinking about each such issue, and the generally accepted answer, bring about the proverb's success, with all the human suffering entailed, while it is a family acting in the opposite way that offers some possibility for a more positive outcome. What then are these paradoxes that are reflected in and underlie Martel's dilemmas?

First, the wealth of a family that is critical to its long-term success are its human and intellectual capitals as reflected in the levels of the thriving of its members, their levels of self-awareness, and their competencies. Financial capital can help grow these other two capitals, but on its own (or worse, as a family's principal focus), financial capital can do little more than bring on the effects of the proverb.

All dynamic enterprises are a combination of the human beings who form them (their human capital); of the knowledge that these people have; of their capacity to learn, experience, and integrate new ideas (their intellectual capital); and lastly of their financial capital as a tool for growing the first two. Paradoxically, all family leaders know this to be true in every enterprise, other than their families. By forgetting this truth where their families are concerned, all the while without seeing that it is the growth of the family's human and intellectual capitals as in every dynamic enterprise that really matters, and concentrating their efforts on growing the family's financial capital, those leaders allow the proverb to work its stealthy will.

Second, families who see themselves as people with affinity, rather than as people with common blood, open their family systems to new energy. They do not close their systems and block the new energy that every generation needs to balance what they will naturally lose. Perhaps the greatest fallacy families can fall into is to define themselves as blood, when in reality, no family has ever existed that did not begin with two people with an affinity. In fact, there has never been a family of blood! The creation myth of every culture recognizes this and defines its founding through the affinity of two people. Woe to the family that defines away reality in favor of the hubris of defining its blood as something special. Why? Because its creation myth begins with a fallacy from which it is nearly impossible to escape the consequences of the proverb. The proverb is daunting enough. A family needn't begin its fight to overcome it from a false reality.

This paradox of how families define themselves lies at the heart of the failure of many families. No family ever has enough human and intellectual capital, just as no enterprise of any sort ever has enough of these. What we know about combating the proverb is that the most successful enterprises, and families are enterprises, are the most open and welcoming to additions of these critical capitals. They are systems of affinity. At some level, all unsuccessful enterprises represent closed unwelcoming systems that are unable to add the new sources of human and intellectual capital they need to remain dynamic.

Third, family systems that say "do this for us and we might do something for you" are doomed to fail, whereas those that say "what can we do to *enhance* your individual journey toward the dynamic preservation of our family as a whole," before asking anything of you, succeed. Every human being I have met, even those most empty of spirit, has sought to find a group that will promote the growth within him to a higher level of freedom and self-awareness. To reach their fifth generations and go on from there, families must remain positively attracted to all potential new members. Family systems that enslave by obligation to the system first, and with some possible benefits later, are negatively attracting and will drive away potential members. Family systems that seek to enhance the individual journey of each member are founded on the growth of individual freedom and, as such, are more positively attracting than their opposites. Paradoxically, most families' systems of governance start with obligation and duty instead of with individual members' journeys, dreams, and passions, and thereby contribute from inception to the proverb's success as they fail to acknowledge the real needs of their members. Founding a family's vision and mission around individual members' enhancement toward the dynamic preservation of the family as a whole works toward success because it is energizing to its members and to their life goals of achieving individual freedom and greater self-awareness.

Fourth, learning to become a great strategic owner of a family's financial capital is an art critical to the dynamic preservation of a family's wealth, whereas management is a science to carry out the owner's strategic vision. All families with significant financial capital are at risk of the paradox that it is ownership, rather than management, that matters to a family's long-term success. That management, while a primary tool, is only one of the tactical tools a family needs to achieve success. How many families spend endless hours on management succession (often with deep wounding of the family's social compact as invidious choices among equals tear at the family's fabric of relationships) while spending no time on teaching all members to become strategic owners? Only then to discover that when the really critical issues in the transitions of their enterprises require the owners to make great joint decisions that the owners have no experience of being owners and make entropic decisions as a result? Management succession is important but, paradoxically, no management can manage successfully if the owner's vision isn't guiding the work. Absentee owners, which is what uneducated owners are, may stroke management's ego as the owners leave management free rein to follow its own way, but this drives family enterprises into entropy, with the resulting dissipation of the family's financial capital.

In my experience, when addressing financial capital issues, families need to spend 90 percent of their time learning to be great owners (what I define as dynamic steward-conservators) and 10 percent on management succession, if they are to be successful dynamic steward-conservators. Why? Because one cannot choose the right manager if one doesn't fully comprehend all of the strategic issues the enterprise faces going forward.

Fifth, in every generation after the first, the critical leader needed for excellent family joint decision-making is the leader from behind rather than the leader from in front. Families, from their second generation on, are communities of people with equal genealogical linkage to the first family couple of affinity. Each individual family member, regardless of his or her share of the family's financial capital, has an equal claim to leadership and to its glue—its stories.

In a family seeking to enhance the individual journey of each of its members toward the dynamic preservation of the family as a whole, each individual member seeks attention from the family's leadership to achieve success on his journey. This necessitates individual guidance—a system of leadership that is quintessentially from behind.

Conversely, if the family's leaders are directing from in front, it is natural that *their* individual goals will be paramount, as they seek followers to achieve them, with a concomitant disregard for the individual journeys of each of their followers. Specialists in the field generally do not teach leadership from behind, but it is the only form of leadership I have discovered that actually works in families, given the natural equality of family members.

Again this reality expresses paradox because it is leadership from in front that most families practice. In doing so, families allow the proverb to come true as the growth of the human and intellectual capital of each family member is substituted by the entropic obligations and duties required of family members by the leader in order for the leader to achieve his goals. The proverb subtly works its will.

Each of the five paradoxes lies at the root of a family's failure to thrive and each in its own way produces the dilemmas that this book describes. In seeking to solve these dilemmas, if families can bring an awareness of these paradoxes of behavior, combined with a knowledge of their family's system and the transitions in their family in which these systems are operating, all toward governing themselves in a more enlightened fashion, they are likely to find solutions to these dilemmas that increase their well-being and equally reduce the suffering of those they love the most by the care and attention they give to their resolution.

We are blessed that Judy Martel has seen fit to bring these dilemmas to our attention. We can benefit those we love the most by deeply engaging with each of their resolutions, aimed at reducing human suffering, and most importantly, growing great families governing themselves toward the long-term realization of their members' dreams and away from the proverb's pernicious prognosis.

James E. Hughes Jr.
Author of *Family Wealth: Keeping It in the Family*