

What Is A Family's Wealth For?

One of the most important questions for a wealthy family, but one that is all too rarely confronted, is: "What is the wealth for?"

Discussions with the principal and some of the next generation can quickly lead to the realisation that this question has never been addressed specifically - or that family members have tried to find an answer, and they all have fairly different answers.

But just because the answer is hard to find, doesn't mean families should give up trying to find one. We believe that a clear answer provides a sound basis for family cooperation, and families risk building a house on sand in the absence of one.

The question can seem daunting, but there are several reasonable responses:

One: The family is primarily concerned with achieving harmony among family members and they structure their activities to reach that goal.

Two: The wealth is for developing the next business project. This is typical among tech entrepreneurs, and a good example is Elon Musk, who after selling his stake in Paypal set up electric cars firm Tesla and renewable spacecraft venture SpaceX.

Three: Many more families are focused on managing their wealth to reach a set of arguably generic aims; financial objectives, for instance to preserve its value in real terms, or to achieve a certain real or nominal return.

Four: Like Bill Gates, they want to dedicate all the money in their own lifetime on philanthropic activities.

These are just four examples, and of course, they don't have to be mutually exclusive. In a recent interview for BBC Radio, Bill Gates discussed how he is deploying his wealth and said he is happy that he and his wife have done as much as they can to ensure their children

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Effective Partners for Wealth Creators

Hillside, Chalkpit Lane
Marlow, Buckinghamshire, SL7 2JE

Tel: +44 (0) 1628 486 067
Fax: +44 (0) 1628 486 037
E-mail: info@termesconsult.com
www.termesconsult.com

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are functioning, self-supporting members of society. Once that was achieved, the rest is for good causes.

Similarly, we recently spoke to a 50-year-old business owner who said that he had also provided enough for his children and now wanted to spend the rest of the money he had earned to enjoy his life and pursue business objectives.

Neither man is interested in transferring the wealth to the next generation. But both have realised that the magnitude of the wealth has a bearing on what their wealth is for. If there is a lot, it doesn't have to be managed as a monolithic quantum of wealth.

Some can be for lifestyle, some for new businesses, some for philanthropy and so on. Each part can be dealt with in a different way, setting appropriate strategies for managing liquidity, generating income, ensuring diversification and so on.

Multigenerational

Most of what we have said so far typically applies to the older generation who often head the family business. The situation can be very different when the needs and aspirations of the wider family are considered, particularly those of the younger generation.

The question of what the wealth is for doesn't go away, although it can become something inherently more flexible to take into account the views of all the family members. However hard it is, the risk of not dealing with the issue is greater, as in the absence of a coming together and an open discussion the current business head tends to concentrate on what is important to him or her.

This is often centrally controlling the wealth, or starting new businesses – and it may be to the detriment of younger members of the family - often profoundly so.

Tacit acceptance of the business head's interpretation of the wealth's purpose can produce children and other family members who want for nothing but have no goals. They can develop very low self-esteem and become very vulnerable.

Families sometimes feel that they have to employ dedicated people to help family members affected in this way – sadly, often with the opposite effect. This is one reason why the discussion about the purpose of the wealth is so important - it can minimise these problems.

Unless the discussion is an inclusive exercise, not only the wealth, but the mental and even the physical well-being of family members can be put at risk.

Interdependence

Another thing to bear in mind is that the wealth's purpose is linked with and often drives the resolution of other important issues. Discussions about wealth are tied up with questions about governance and whether the next generation want to be owners of a business or to be involved in the management - indeed, whether they are really capable of taking an active management role.

It involves discussions about the next generation's role, and asking them what they want. This can present some real challenges. The discussion can be catalysed by the need to pass on ownership or management, which seems to involve fairly anodyne questions about

process or whose name is on which asset. But very quickly families find the debate leads them beyond these concerns to the real issue – what is the wealth for?

Whilst the discussion can be difficult, it can lead to a very positive process of discovery. For example it may reveal the fact that the parents didn't want to involve the children in the business because they thought they weren't interested. But the effect is that the children become engaged and start to see how they could make a real contribution, rather than feeling excluded.

A conversation about what the wealth is for can help to reveal underlying conflicts between family members and open the way to constructive discussions, helping to build mutual trust and more effective cooperation.

The answers don't have to be complicated or controversial. Just getting family members to agree a few key principles, for example something like - "the family should accommodate the different interests and aspirations of its members, while ensuring that those who lead and own the business work as a team" - can open the door to a meaningful discussion about what the wealth is for. This particular principle acknowledges that family members have different aims, but that the wealth should support them all.

Another principle is that "the family should ensure the next generation is actively involved in the business". As we have seen, someone like Bill Gates does not sign up to this. Agreeing on this point is a profound step, and taking it will start the family on the road to finding a strategy that suits them.

Answering the question "What is the wealth for?" provides a sound foundation for family cooperation and drives many key decisions that a family has to make about its wealth. Putting off asking it might be uncomfortable, but ignoring it will not make it go away.

Wadih Hanna & Guy Warner
Partners, The Termes Partnership LLP
February 2016