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ON FAMILY OFFICE MANAGEMENT

The family office next-gen sandwich: Keeping generations together

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As Ralph Waldo Emerson said: "Life is a succession of lessons which must be lived to be understood. All is riddle, and the key to a riddle is another riddle."

Succession conversations and related issues are lurking in the background for most enterprising families — particularly within family offices, which have dynastic intent. The financial and nonfinancial aspects are complicated, and the supporting structures are complex. With individuals living and working longer, and with multiple generations participating in and being supported by the family office, it is becoming increasingly frequent to find three or more generations concurrently active in the family office.

Is this a dilemma or an opportunity?

Not that the British royal family is the perfect example, but there are certainly some parallels. As we saw over the years, it was fascinating to observe Queen Elizabeth II grooming her grandson Prince William for leadership — seemingly overlooking her son, Prince Charles. "Granny" was focused not only on Prince William but also on his wife, Kate Middleton, the Princess of Wales, for the succession and professional responsibilities of their future roles in the monarchy.

To explain this three-generation phenomenon on this side of the pond, Americans would use the metaphor of the club sandwich. A classic and favorite sandwich in the States, we delight in the club's complexity: layers of bread filled with chicken, bacon, lettuce, tomato and cheese — then sliced in quarters. However, because the club is multilayered and multitextured, the primary challenge is keeping it together and preventing it from falling apart.

At a recent family office gathering, the question was asked, "How many of you in the room have been a next-gen?" and everyone raised their hands. The next question asked, "How many of you are still a next-gen?" and the majority raised their hands. This pattern is now more of a trend rather than an anomaly, found in family offices on a global basis.

We lovingly coin this trend "the next-gen sandwich," where the leading generation (G1) is passing over their next-gen (G2) children for their next-next-gen (G3) grandchildren. From an age perspective, G1 is typically in their 80s and 90s, G2 in their 50s and 60s, and their children in G3 range from their 20s through 40s.

With increasing frequency, we see G1 bypassing G2 for G3.

Through these actions, the message is delivered as "Your G2 parents have not met our G1 expectations and are unprepared 'slackers,' so we will devote time and resources to educate and train you, our grandchildren."

In this scenario, G2 is passed over, and resentment and jealously often erupt against both G1 and G3 by G2. As a result, G2 is the sandwich generation, and family dynamics become increasingly challenging.

We've heard this statistic ad nauseam: We are currently in the middle of the largest transfer of wealth in human history, valued at about $60 trillion to $80 trillion over the next 25 years. We are seeing this realized as baby boomers transition and/or sell their businesses, retire and/or die and pass on their wealth, including family business, to their heirs.

Said Dr. Doug Gray, author of The Success Playbook for NextGen Family Business Leaders and founder and president of Action Learning Associates: "This is a major worry among business families, which is why there is a need for training and coaching to ensure that the next generations are well-equipped to inherit the organization and allow for an orderly transition.

"As a behavioral psychologist, I focus on what people say or do. I've learned that family enterprises are more complex than any other type of business."

Gray focuses on giving the next gen clarity and confidence to inherit the family business and wealth, while helping the leading gen plan, trust — and let go.

"Many next-gen family business leaders I've talked to feel alone and alienated," Gray said. "Some say that they are trapped in the family business, which is about as negative as it gets!"

Chip Fisher, principal at Ursus Advisory, provides peer-to-peer consulting for young adults with inherited wealth. Fisher is uniquely equipped to work with ultra-high-net-worth next-gens on the psychosocial issues involved with inherited wealth, as he himself is a next-gen family member.

"Anyone who inherits great wealth," Fisher said, "should self-examine between the ages of 21 and 40, ideally, in order to live a full and productive life, to rule their wealth rather than have it rule them."

In principle, he understands why families are now skipping generations when distributing wealth. "However, in some cases, skipping generations can create havoc when the G3 grandchildren acquire asset superiority at too young an age," Fisher said.

Case study: The T family

The T family is an American family that has grown its multigenerational wealth through the family business, an industrial company. There are four generations: The G1 matriarch and patriarch are still active in the business and in their early 80s and have not yet ceded control to G2, their children. Two of the G2 who help operate the business are in their late 50s/early 60s, with their sibling working outside of the family enterprise. G3 are in their 30s and 40s, with some working in the family business and others working in the single-family office. G4 are babies and toddlers.

Because the T family's primary and day-to-day focus is on operating the business, they originally had an embedded family office. EFOs exist within a family's operating business when some of its employees, usually found in accounting or finance, share the dual role of serving both the business and the family. Over the years, the T family's EFO naturally evolved to be more complex; and some of the people and all of the services were extracted out of the EFO and moved into a newly formed single-family office (SFO), which was managed by some of the G2 and some of the G3.

Matriarch and patriarch have been increasingly relinquishing the reins of the business and SFO to G3, often bypassing G2 through the day-to-day work and direct training and mentorship. As an example, G3 drives and leads the fastest-growing segments of the family enterprise and works mano-a-mano with the grandparents. By contrast, G2 operates the less sexy, slower-growth, "bread and butter" segment and does not get as much support and attention from the G1 parents. Additionally, there is an overarching feeling from G1 that G3 has more energy and hustle than the G2 parents. This has caused significant tension between G1 and G2, as well as the beginnings of resentment of G2 toward the G3 children.

"If you watch 'Succession,' you know that sometimes the patriarch will have his kids compete — kind of like General Motors, where they kept the company strong by having the divisions compete against one another," Fisher said. "Rather than seeing the outsiders as competitors, they see the insiders as competitors."

Fisher's advice to the next gen: "Be able to read the weather in your own family and in the company and figure out what you need to do to either position yourself to be happy or not or whom you can trust. Your parents or grandparents are no different than any other senior executives you might work for."

Recognizing the pressures associated with the next-gen sandwich and significant wealth, combined with the opportunity to do good in the world via philanthropic endeavors, the T family recently engaged an outside adviser to help establish a continuity plan, with proper governance that allowed the family to navigate its dynamics, improve communication and build the fractured trust.

The good news is that the T family is exploring and designing roles and responsibilities in the SFO, businesses and family system. They are working toward rebuilding their fractured relationships and are once again enjoying their personal time together. All four generations are committed to preserving durable family harmony and are willing to do the work out of love for each other and generations to follow.

Considerations

For families in the next-gen sandwich, the main goals are to ensure that the systems and each generation have trust, alignment, communication and control. Spend thoughtful time designing and implementing governance, with a cadence to review and update it based upon the realities of the family.

Appreciate the complex family office relationships

Define your family. Discuss, write and review it regularly. Your definition of family may be based on blood, shared beliefs, culture, religious norms, generations, participation of time, contribution of capital or restricted-to-specific assets (i.e., who can use the beach house). There is no right or wrong.

Hold regular meetings. As a check-in activity, regular family meetings set the tone for public validation, collective support and celebration.

Schedule the talks. Communication skills can be developed, in small groups and at the family level. Team with advisers to manage the process and accelerate essential conversations.

Share legacy conversations. Openly discuss your values, mission statement, hopes or fears, and aspirations.

Write love letters. As an annual tradition, write love letters across generations and share them with one another. Your family history is dynamic; capture it for yourselves and future generations to understand their family origins.

Measure impact. Create meeting summaries and reports to track impact and progress.