Successful Wealth Transfer Strategies – Inheritance Behavior

Addressing Wealth Transfer from the Inside Out

> "Happy families are all alike; every happy family is unhappy in its own way."
> (Leo Tolstoy in *Anna Karenina)*

Quality wealth transfer planning is often judged by the astuteness of the legal and financial strategies that are implemented. However, many of these perfectly prepared plans fail the day after death.

So why do families get destroyed? Why does the family wealth get dissipated? These issues are relevant regardless of the wealth of the family. In reality many estate plans are flawed from the outset because they fail to address the family's needs from the "inside-out".

The real issues that need to be addressed and integrated into the plan are:

- Who is the family?
- What values do they wish to transfer to their children and the community?
- How much is enough?
- What influence will the wealth transfer have on the lives of their beneficiaries?

Any professional services provider, including attorneys, financial advisors and accountants, really needs to discover the "Inheritance Behavior" of the whole family to improve the chances of the wealth transfer planning working. Understanding the Inheritance Behavior is foundational to the Family DNA™ Model that I use in building any wealth transfer strategy.

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Family Evil: Money or Poor Relationships

Family problems have existed since the beginning of time. More often than not, a lack of money or too much money has been at the center of the problem. George Bernard Shaw famously noted that the "lack of money is the root of all evil", and the Bible says that the "love of money is the root of all evil". Today, it is probably more the case that the human emotions and behavior triggered by the transfer (or division) of family wealth are the cause of a large part of family evil.

In many ways, it is a myth that money is the primary cause of the problems in transferring family wealth. In fact, we believe the quality of a family's relationships is one of the most significant drivers in managing and transferring family wealth. However, the family issues and dysfunctions are brought to the surface through the positive and negative energies that arise from the different ways money is perceived by members of a family. The primary issue is simple but the resolution is complex: family members all have different innate preferences and behaviors that need to be understood and reconciled. Hence, success in transferring family wealth rests in being able to manage the family dynamics and "close the relative gap".

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The Impact of Growth in Inherited Family Wealth

In the developed world, one of today's major issues is inherited wealth and how to cope with it. Easy money is the lottery ticket buyer's dream but now more and more people are getting it. Great grandfather's courage and business acumen has led to what is now passive wealth for a growing percentage of the population. A few decades ago, it was all in the hands of old dynastic families who educated their children, raised them with full awareness of their birthright and responsibilities from a very early age, and also had the presence of mind to establish family offices to manage and protect family wealth, ensuring that it passed smoothly and efficiently to future generations, and developing high levels of philanthropy along the way. Now wealth is the birthright of thousands. Just inherit the family home and you could have a couple of million in the bank; inherit the family business and it could be multi-millions, maybe even more if you happen to be called Walton, Murdoch or Gates! New terms have appeared - trustafarians, affluenza, and sudden wealth syndrome to name but a few. Today's press is loaded with tales of rich kids who have lost the plot, watched their wealth disappear up their noses, parked Porsches in their drives, seen relationships destroyed, exhibited bad taste and even worse manners. And why does the inherited wealth get lost? There are a multitude of causes but the absence of what we call the "Family DNA™", being a cohesive family purpose based on the core values of the family, is a significant one. Then also the lack of a solid family structure, personal motivation and strong parental direction have often been major contributors.

The Added Complexity of Family Businesses

When a family business is involved, a whole new set of issues arise. There are a number of surveys which consistently tell us that 30% of family businesses survive to the second generation but only 4% to the third. And the size and scope of the business does not seem to matter. The primary cause of the problem is that the transfer of a family business is an emotive issue which is seldom addressed up-front.

The international press in the last few years has given wide coverage to the problems at Reliance Group, India's biggest privately controlled corporate conglomerate with an annual turnover in the region of 3% of India's GDP and accounting for 10% of India's indirect taxation. Dhirubhai Ambani, the son of a poor school teacher from a small village in Gujarat State, founded Reliance and developed it into an industrial empire with interests in synthetics and textiles, petrochemicals, oil and gas exploration and refining, financial services and telecommunications. Its Indian stock exchange listing in 1977 was one of the largest public stock offerings, attracting thousands of small investors to a market hitherto dominated by state-run institutions. Ambani was a colourful and controversial character and when he suffered a stroke and died in 2002, guess what – it seems that he did not leave a will. There followed an acrimonious dispute between Ambani's two sons over ownership and control of assets, played out in the full glare of the media over several months. The family controlled around 45% of the group companies. The sons are a study in contrast – one very conservative and reticent, the other a member of India's upper house of parliament basking in the company of politicians and film personalities. And they have now decided to split the group down the middle and focus their energies on their respective businesses. Proper communication, preparation and planning – not to mention a will – could have made a big difference.

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The Family DNA™ Model

In designing a successful family wealth creation strategy, the results will be optimized if the family and its professional advisors adopt the "Family DNA™ Model". This approach will improve the integration of the human issues, relationships and family purpose with the financial and legal solutions. Let's look at how all of this works.

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Understanding the Family Behaviors

In order to keep everything on the right track, a family needs to start out by spending some time developing a better understanding of the behavioral dynamics of its various members – why people with the same name and background, when faced with the same circumstances, think and act in totally different ways. What makes them tick in their individual ways? Why do they have different likes and dislikes, a variety of interests, habits, styles, and senses of humor? Family members really need to get to know themselves better.

The Discovery Process: Objectively Getting Below the Surface to the Truth

When we work with families and family businesses, we start off by giving each family member the Financial DNA® profiles to complete - these profiles objectively uncover a great amount of information to enable each family member to better understand themselves and each other in relation to life, financial and family decision-making. Also, the profiles help the family advisors gain a full understanding of each person's likes, dislikes, financial preferences, interests, passions and values. The profiles provide an objective platform for everyone to focus on a variety of issues which will impact how the transfer of family wealth will be handled – what we are calling the "Inheritance Behavior". Many of the issues are

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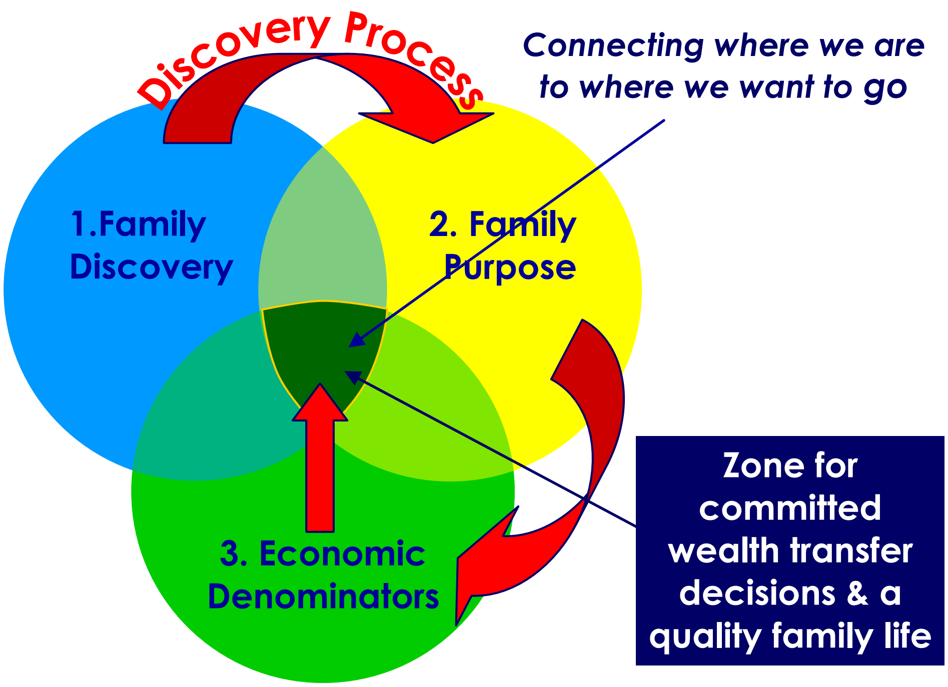
more about each family member's life, rather than family matters as such. Our approach enables us to put the family at the center of a plan rather than their money. Further, it allows every family member to be treated equally in the process, which ultimately builds more trust.



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Often in engaging a family to participate, we start off with our iceberg illustration; 10 percent of the behaviors are visible above the surface and 90 percent are hidden below. The reality is that because every family member sees the world through their own lens, they will have blind-spots about themselves and other family members. It is very easy for a parent to see what they want to see in their children and over time this can build up into a relatively inaccurate picture. Similarly, the children can lose sight of their parents' lives and who they really are.

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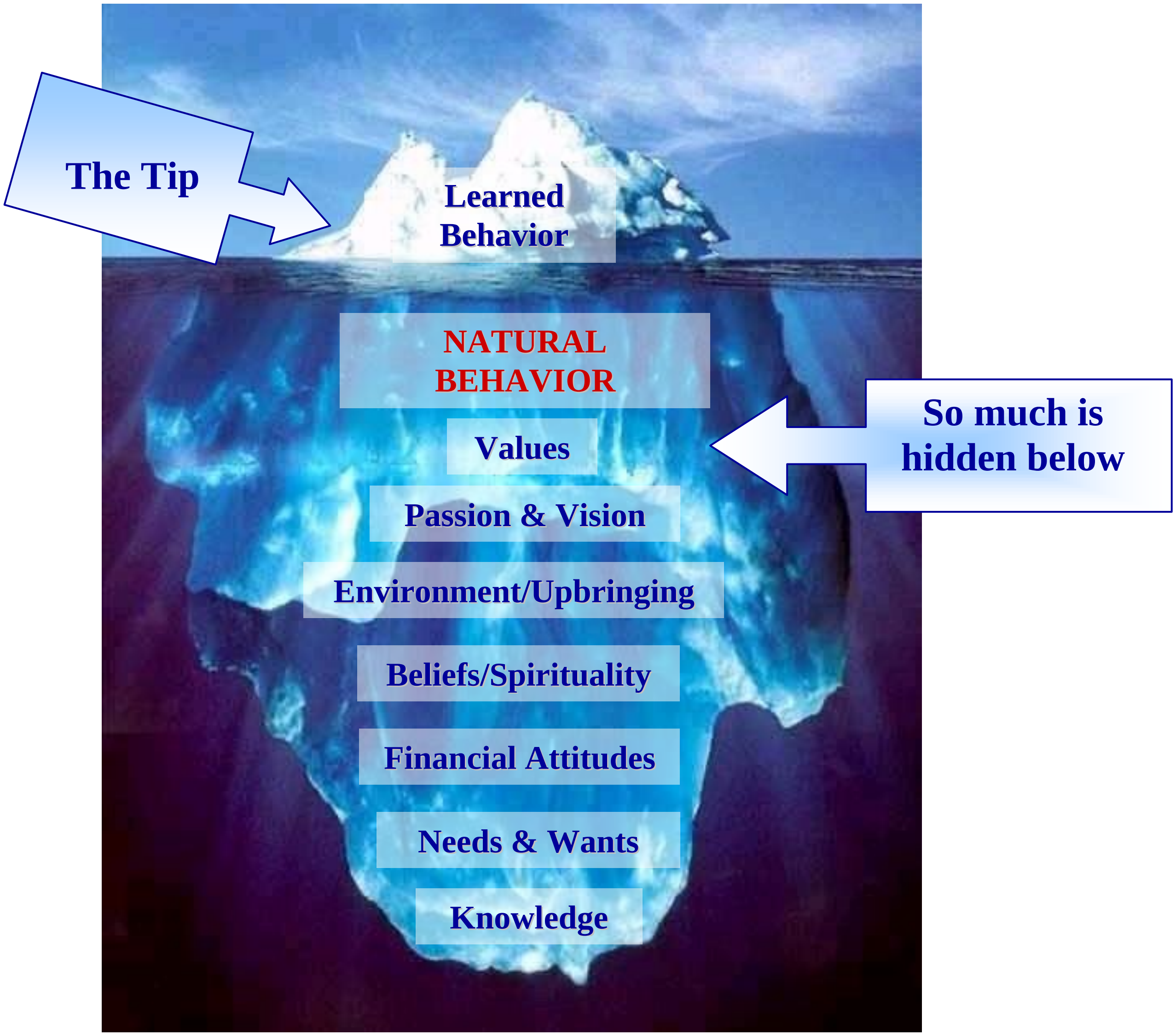

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The visible part is our public behavior – how people see us in our daily lives and to a degree, how we want people to see us in certain situations. Below the surface is our core naturally motivated behavior, not usually on general display but having a critical impact on our lives, often surfacing when key events take place in our lives or when key decisions are to be made. There is our passion and vision; both need to be identified and developed into practicality. Our individual environment and upbringing influence many decisions and can sometimes cause roadblocks to future success if they run contrary to hard-wired behavior; when they do, strategies can be put in place to provide solutions. Our values: what we place importance on, things that really matter to us deep down. Our needs and wants: what we really want out of life - our life mission if indeed we have one – and not just keeping up with the Jones's. Also, our belief systems are important.

A major focus is obviously on the behavioral finance aspects of family life. What are the family's financial motivations? To build more wealth, survive, educate the next generation, or perhaps make a social impact? Does the family have sufficient financial experience, confidence and skills, is education needed? How will they react when things go wrong? They usually do at some stage. Are they quick decision makers or slow ponderers? Do they need detailed explanations or just the hard facts? Are there some asset classes with which they have greater comfort or investment products that they have tended to avoid in the past?

Managing Family Relationships

The process of managing family dynamics should start with strong family leadership from the top but if this is not naturally in place, another family member should be allowed to take the initiative. In today's fast paced hi-tech world, families are often too stretched to devote the right amount of time to understanding the true needs of each other and maintaining soundly bonded family relationships based on effective communication. Families need to build a high level of mutual trust; each family member needs to understand who they are - their strengths and as well as their struggles. The various family members all have differing behaviors and characteristics which lead them to look at the same situation from a variety of angles; they need to understand why they have one perspective and they need to comprehend – and accept - why their parents and siblings may have a different one. Having this behavioral knowledge and recognizing the differences becomes the platform for learning how to communicate on each person's terms. Some effort at an early date can help to reduce the risk of family dysfunction and trauma at a future date. How many family relationships destroyed by fights over parents' estates could have been saved with proper communication and planning at the appropriate stage? An ounce of prevention is always more valuable than a pound of cure.

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Identifying the Family Purpose

Once the behaviors and preferences of all the family members have been uncovered, the next step is to identify the Family Purpose. This is really getting to the core of who the family is based on its values. The family has to cohesively identify what it stands for, how it wants to be remembered and where it is going. These are not easy areas to address when there are many different people involved all with different life circumstances, notwithstanding they are of the same flesh and blood. Going through this process, even if painful and emotional, will really help those who are responsible for transferring the family wealth to develop a decision-making framework and set of strategies based on what is important.

The way we take the family through this process is to firstly prepare a "Family Map". In essence, this document is an analysis of all of the behavioral information that has been uncovered. Then we would normally organize a "Family Currency Forum", being a family meeting which is typically held at an offsite location to openly learn more about each other, develop effective communication and build a bridge between the different family members to a cohesive purpose. Consideration needs to be given to using an independent facilitator to run the family meeting so that there is a high degree of impartiality to the outcomes. This of course, depends on the sensitivity of the family dynamics and the budget.

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Creating the Family Futurity Plan

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At the end of the life and financial analysis, we create a "Family Futurity Plan" to document how the family will move forward in the future based on a deeper understanding of all the human behaviors and preferences and integrating the financial and legal solutions. We also establish modus operandi and personal rules of engagement for managing the plan and the family dynamics. By creating a Family Futurity Plan we can give the family a much more powerful framework to make committed decisions for the long-term through having far greater buy-in of all of the family members. The goals for family relationships and continuity, business continuity, financial continuity and philanthropic continuity can all be satisfied.

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Building a Quality Family Life

Ultimately, the key to the success of the wealth transfer strategy is that the family is able to build a Quality Family Life by understanding the different family member perspectives and living true to its values in harmony with each other. How this works will be different for every family because each is unique. The success of a family living a quality life will come down to having the courage to hold itself accountable to its purpose and build the quality of its relationships. Holding regular meetings to communicate with each other about the family's issues, legacies and its financial well-being will go a long way to enabling the wealth transfer strategies implemented to hold together as intended.

About the Author:

Hugh Massie is the President of Financial DNA Resources. In his work as a Wealth Mentor, Hugh specializes in human behavioral discovery using the proprietary Financial DNA® Discovery Process to liberate and empower people, families and organizations internationally to build a Quality Life by improving the integration of their financial personality, relationships, life purpose, and finances. Hugh is the author of a book "Financial DNA® – Discovering Your Unique Financial Personality for a Quality Life". Hugh can be contacted at inquiries@financialdna.com.

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