Money, Families and Transitions - by Hugh Massie, December 2002

All families regardless of their size experience significant transitions at some stage. The transition may take place in any number of ways including, a sale of the family business, succession, death, divorce or reorganization. Usually, every transition has enormous financial consequences for the family in a relative sense to their position.

In many cases the "money" issues cause more distress and disruption to the cohesion of the family unit than the transition event itself. How the family survives and prospers after the transition will depend on the management of the "family dynamics" and the related financial decisions. There are a number of areas that need to be understood and synchronized in respect of each family member to achieve an optimal family dynamic paradigm with respect to the family financial arrangements.

Building a Committed Strategy

The goal when a family is in transition is to implement a strategy that each family member understands and then is aligned and committed to. The key is building and then maintaining trust between each family member and any advisors who are appointed.

How is this done? What are the forces at work?

The Issues

The following issues are relevant to all families, with family transition events bringing them out more acutely. Family transition events trigger the need for decisions to be made.

1. Every family member will perceive their environment differently even if they have the same parents. It is not uncommon for siblings with the same opportunities to look at their environment and the related financial issues differently. This means their behaviour in dealing with a family transition could be radically different. Every family member has a different style of making financial decisions and solving financial problems. In essence, every person has a unique financial personality.
2. Family members will often be unaware of each other's needs and thought patterns. Those in control may be oblivious to the anxiety of others and the resulting discontent.
3. Trust is a significant issue in families and differing attitudes to money can destroy trust. Trust is foundational to developing a strategy to which all family members have buy-in. Trust is built through an understanding of people.
4. Each family member will have a different level of financial education that will put them at different levels of understanding and insight into the transition event.
5. In many cases, there will be opinions and views that family members will never have communicated to each other which could have significant ramifications.
6. The information about family affairs conveyed to each family member will be different. Accordingly, each family member needs to be informed such that each person has the same information.
7. Control of the family business, investments and foundations is a significant issue. Consideration needs to be given to: who has control of family assets, the family governance arrangements, transparency, access to dividends and liquidity.

8. Achieving committed buy-in to any strategy will be difficult unless each family member is able to contribute to the process.
9. The roles of the varying family members before and after the transition event are significant. Each family member will have different levels of: (i) knowledge of the family's financial issues, (ii) general business and financial knowledge, (iii) power and/or authority within the family unit, (iv) wealth and income outside of the family.
10. The family transition event will generally be far more sensitive and volatile than a normal business reorganization primarily because emotion levels will be higher. This will manifest itself in many ways, in particular, different and potentially unrealistic perceptions as to financial entitlement and demonstrated lack of trust.
11. The risk in family transactions should not be underestimated. If a family dispute results then there will be potential for litigation. Poor communication and information flows will be a significant factor causing a challenge to a family transaction.

Independent Facilitation

Family transitions are often facilitated and/or managed by independent facilitators, such as lawyers, accountants, financial advisors or business consultants. The appointment of an independent facilitator(s) should bring objectivity to the management of the transition and a high level of financial and business expertise. Hopefully, this will mitigate the anxiety levels so that the real issues can be addressed.

Clearly, how the facilitation is handled will be significant to the outcome. The appointment must have the buy-in of all the family members and the selection itself seen to be neutral. Otherwise trust will be destroyed from the outset. All members of the family should share the payment of the facilitator's fees.

A key factor in the profile of the facilitator will be that the person has a high degree of emotional intelligence. The facilitator must also be highly self-aware and sensitive to the emotions of other people. This is considered crucial to the outcome, as the facilitator will need to manage the emotions of the family members and prevent them from sabotaging logical financial decisions.

The Solution

There are no right or wrong approaches to dealing with the transition or outcomes. The optimal approach to handling family money and transition decisions can only be determined after undertaking a comprehensive discovery process of each person who will be affected.

1. Each family member should be treated as a stakeholder and be involved as such in the decision-making process.
2. There must be a defined process for handling the transition event that is systematically managed with clarity. This will create a sense of security for all of the family members, particularly those who perceive they are disadvantaged within the family unit in some way. Such a process will assist in building trust and removing any anxiety.
3. Each family member must understand the core of who they are and their own financial personality before they can deal with the family's financial issues.
4. The attitude of each family member to money and their value system with respect to the family business and finances is critical to understand.
5. The aptitudes, interests, strengths and struggles of each family member need to be identified. This may enable family members to participate in areas of the family's financial interests that had not previously been considered.

6. Each family member must understand where they have come from, where they are at and where they are going. This must then be related to the family as a unit so that each understands where the family has come from, have an understanding of where it is at now and the vision of the family for the future.
7. A forum needs to be developed whereby the family members can freely voice their views about family financial matters.
8. An environment for sound communication between family members needs to be developed initially at a general level to build family relationships and remove blockages. Then from that platform the family communication needs to be developed with respect to money and the family financial position.
9. The expectation of each family member needs to be identified and managed. The key is to establish the points at which the family dynamic is aligned. This does not mean there has to be agreement on every point.
10. Family members will need to be educated in areas where their knowledge is weaker so that they are brought up to a level of being able to make informed decisions. Further, this will help the family members develop “knowledge equality” with other family members.

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 implement committed wealth creation decisions aligned to the core of who they are. Hugh is the author of a book “Financial DNA® – Discover Your Unique Financial Personality for a Quality Life”.