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NON-PROFIT

When You’ve Made Enough Money to Cause Family Tension

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Imagine you — as an extraordinarily successful business founder — have just joined the exclusive ranks of the 200,000 people around the world with a net worth over $30 million.

Your laser-like focus on the business is about to give way to what we call a Second Act.

A successful Second Act often poses an existential crisis because it requires a very different approach than the First Act did. The First Act involved an intense drive to build the business. Your Second Act is probably going to involve the creation of some sort of family enterprise, meaning that there will be some collective family decision-making over shared assets such as a foundation, a portfolio of investments, perhaps some businesses and, likely, family properties.

Having a family enterprise changes everything-from your tax status to power dynamics in the family. The financial decisions you once made singlehandedly in the business must now be shared.

This territory is familiar to successful family business owners, who have long organized themselves into enterprises as the best way of collaborating and holding their families and fortunes together. Your family enterprise, however, is best described as accidental because you never intended to work together with your family; it's a by-product of having accumulated so much wealth that will outlast you.

Think of two icons of American capitalism, Standard Oil and Microsoft. Standard Oil wasn't, and Microsoft isn't, a family business–unlike the Rockefeller Foundation and The Bill & Melinda Gates Foundation, which are. (John D. Rockefeller, Sr. started his foundation with his son, and Bill Gates's wife and father are co-chairs of his foundation.) In both cases, these business icons brought family members into the fold to create family enterprises to help manage their massive wealth.

As family business advisors, we have seen firsthand the challenges and rewards involved in creating and running family enterprises. Engaging with your family entails a radical shift in mindset, and conversations that you've never had before with family members, from "What are our family values and priorities?" to "Whose money is it anyway?"

Answering these questions together with your spouse and adult children is also to engage them as business partners. Even with carefully orchestrated meetings and conversations, however, things heat up by nature of the fact that if the Second Act is to be successful, you must give up some control over the money that you worked so hard to earn. The mantle of authority that you had in the corner office will be challenged. You can no longer run the show; your spouse and children can disengage from your plans at any time. This is why governance becomes essential. Without structured decision processes, it's too easy for one generation or the other to disengage. It's by sharing the responsibilities for the wealth with your adult children that they can learn from your experience, and also learn to be in business together.

You may either be unable or unwilling to make this transition; you may try to keep a tight fist on your assets, even attempting to control them from the grave. There are, after all, many tempting tax structures that encourage wealthy people to do just this. But even more commonly, in our experience, you may want to keep control of your money because you are deeply anxious that a massive fortune can be toxic for your children and grandchildren. What if they fail to develop your work ethic - or worse? But the antidote to indulgence and entitlement is engagement, not control. By getting stuck in the control mode, you miss a great opportunity to challenge and mentor your children and to help them develop their full potential. For some of you, this may be your last chance to become the parent that you had always hoped that you might be.

Consider what happened to one very wealthy business family that we know well. The owners feared the downside of wealth so greatly that they waited until family members were in their mid-30s before telling them their true worth. “And then we dropped the bomb on them that they are incredibly rich,” one owner told us.

“Dropping the bomb” is the perfect metaphor. The news shattered many of the adult children who were notprepared to deal with a massive fortune. What happened next is not at all unusual in our experience. A number of the siblings became totally disengaged from the family and were only interested in the dividends. When you don’t educate your children and grandchildren about how to live with money, then, paradoxically, life can become about nothing but money.

Engaging and educating the younger generations in the Second Act, though, isn’t only about what’s best for them. It’s also in your self-interest to involve your heirs in your legacy plans, which will more likely go awry after your death unless you get your spouse and children interested. We know of one hugely successful businessman who has built up a superb portfolio of companies that he is managing in the Second Act - but without the buy-in of his adult children. They are just waiting for him to die so that they can sell off the businesses and cash in.

Your philanthropic legacy could also be jeopardized by the wishes of your children. We are working with a matriarch who is deeply involved in reinvigorating medical care in the inner city. It is a 15-year project, and if her sons and daughter don’t engage in it, their mother’s work will wither or be dismantled. That would be a missed opportunity both for the community and for the family.

Even when multiple generations work together to script a different Second Act, family members often feel uncomfortable in the beginning. Sometimes this distress is almost visceral, as it was in the case of a founder who sincerely wanted to pass on the family business to his sons. He would sit on his hands in meetings, trying to force himself to be patient. His natural inclination was to take control and be the decision maker. Sharing power is really, really hard.

The irony is that his adult children were satisfied to have their dad continue to play the role of decision maker. It has taken them several years to step into a more equal role, to engage eye-to-eye with their parents. For a Second Act to be as successful as the First Act, the relationships have to change in both directions.

In this instance, the owner ended up bringing each of his adult children into the business even though none was an expert in the field. The father supported and guided the siblings throughout the project, and collaborating closely, the brothers invested in a multi-million dollar deal that almost doubled the family's wealth. Their father is now easing into retirement knowing that he has positioned his children for a successful future together.

There is no guarantee that every Second Act will work as well as this one did. But treating the Second Act as another start-up will almost certainly destroy the wealth that you've created, and it is also likely to alienate your family. Of course, you can continue to be a one-person show as you move into the Second Act. But in reality, control is no longer a viable solution if you want the legacy of your hard work to outlast you. The curtain has fallen. The First Act is over.

Some of the identifying details in this article have been changed to protect confidentiality.

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