INVOLVING THE NEXT GENERATION

OPPORTUNITIES FOR FAMILY OFFICES

by Suzanne Hammer - Hammer & Associates

Teaching children and grandchildren about philanthropy early on can be a predictor in preserving family wealth, unity and legacy over the long term.

Many successful family offices realize that family unity and long-term wealth preservation depends on their ability to prepare the family's younger wealth owners. One of the biggest concerns is how to educate and pass on leadership to younger generation family members (commonly referred to as 'next generation' or 'new generation').

Motivating the next generation can be a challenging task. Older family members may believe their young adult children enjoy the benefits of wealth and want little to do with the responsibilities. Or they may be waiting to see if or when their children express interest, skills or follow-through to engage in the family enterprise.

I spoke with a number of family office professionals globally about how and why families engage the next generation. According to Patricia Armstrong, senior director of family dynamics and education at Abbot Downing, "For people who have made their own money and the scale of their wealth is beyond what they anticipated, they often worry that their kids will go off the rails, lack focus or feel they don't have to work."

In spite of the concerns, some families don't do much to ready the younger family members for their future roles in managing the family enterprise or working together. As Christian Stewart of Family Legacy Asia in Hong Kong remarked: "Patriarchs often have a dream for family unity—keeping the family together over time—but they rarely teach the skills to do that. The family continues under patriarch's dynamics, and as the older generation ages, they wonder why their children can't get along."

The next generation may view the family enterprise as elusive at best or a burden at worst. They may lack understanding about the family wealth, business and philanthropy—and why it's important to be involved. There may be uncertainty that the older generation even wants them involved, or if so, what that involvement entails. Finally, there may be a reticence to get caught in family dynamics and conflict.

Philippe Weil of PJ Weil Family Offices based in Tel Aviv and Zurich explained it like this:

The younger generation is often uncomfortable and experiences frustration with regard to the family fortune. Members of that generation fail to find a place for themselves in society. Each struggles to define his/her own identity. They feel worthless in the sense that economically everything is available to them but in effect, they have no say in anything.

Philanthropy is an excellent way to bridge this conflict—teaching the next generation about the family enterprise, finances and values, and empowering them to do something of meaning. It can help younger family members develop their own sense of purpose, and give them a chance to practice good stewardship, responsibility and how to share power.

Weil reflected he most often sees families of three generations or more become interested in philanthropy. Whereas the first generation, the wealth creators, are focused on the business, and the second generation is focused on preserving the wealth, the third generations' role can be less clear. "By the time the third generation comes along, they are more conscious what it is to be a family of means. I always tell the first generation to encourage their grandkids to get involved with philanthropy, to do something more strategic."

According to Richard Joynt and Ian Slack of Bedell

Family Office based in Jersey, Channel Islands, "In our experience clients of all cultural backgrounds view philanthropy as an effective way to prepare the next generation. By giving them the opportunity to have responsibility for part of the family wealth, within a safe environment, it allows the head of the family to give them some financial freedom, whilst also serving as an education to the next generation in comprehending the value of money."

In the U.S., more family offices and private foundations are engaging their children in philanthropy early on. One of the popular ways of involving the next generation is by creating an adjunct board and giving younger family members a small amount of money to give away. Lisa Parker, president of The Lawrence Welk Foundation and vice president of philanthropic services for the multi-family office Whittier Trust Company, participated on a youth board when she was young. "Back then, we were very unusual for creating a junior board for the youngest family members (ages 11-24). Now there are so many families intentionally cultivating the next generation to be givers and board members, not necessarily as 11-year olds but certainly as young adults."

Trends in Younger Generation Giving

In a recent study, my colleagues and I identified the following trends for how the next generation approaches philanthropy:

- Drivers of the philanthropy conversation. The younger generation often initiates the philanthropy. "The next generation is more interested in philanthropy than they are the family business. They become the fuel for philanthropy in the family."
- Move from check-book giving to philanthropy as a business. "Giving is highly entrepreneurial and creative and has little to do with traditional giving – especially when it's the next generation who is doing it."
- Interested in innovation and ideas for change. Research has shown that while next generation donors give to some similar causes as their families, they are also keen on new ways of change for the future. (Johnson Center and 21/64, 2013)
- Want to "give while they live." Younger donors feel an urgency to solve the world's biggest problems. They care about making a difference today, in their lifetimes, rather than giving to leave a legacy.
- Metrics matter. Many times, younger donors are entrepreneurial themselves. They want to see impact and results. They want to quantify the social return.

Ideas for Engaging the Next Generation

Family offices can use different methods to engage new generations in the family business and philanthropy. Suggestions from colleagues included:

- Invite younger family members to meetings as observers or participants
- Talk to the next generation and find out what they are interested in
- Take them on site visits of the family business and/or recipients of family funds
- Allow younger members an appropriate amount of money that they collectively must decide to give away; facilitate discussions to uncover their motivations and thought process
- Provide ongoing professional development through conferences, workshops, learning and networking events
- Offer service on advisory committees of the family council or board
- Encourage them to serve on charitable boards as training ground for running the family office or family business, and engaging another perspective
- Ask them for input on projects they are interested in or have expertise
- Establish a "next generation" fund or philanthropy program to train the younger members on philanthropy and grow their collaborative skills
- Encourage the family to share stories about successes and challenges, as research has shown this builds resilience and confidence in the next generation

To learn more about philanthropy in family offices, read the new report Philanthropy in the Family Office: A Global Perspective, June 2015, produced by Hammer & Associates and the Global Family Office Community. Download the report at www.suzannehammer.com.