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How Advisors Can Help Clients Give New Life to Family Businesses

By Ahmie Baum and Brian Baum
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Just because a family has created generational wealth through a business does not necessarily mean they are equipped to handle future challenges that will exist for them. Unfortunately, most family leaders are not repositories of such wisdom. This holds true even where families have built fortunes large enough to impact the lives of their children, grandchildren, and their communities. These pioneers have achieved business success, certainly, but that doesn't mean they have an automatic grasp of the complexities of multigenerational wealth management.

With few exceptions, these business owners often spend too little time mulling issues like equitable distribution, stewardship, philanthropy, inclusivity, and governance. In our experience, wealthy families generally fall into three categories when it comes to comprehensive and collaborative wealth management:

1. Those that understand the need to build cohesion in the name of long-term wealth preservation.

2. Those that recognize the need, but don't understand it's achievable.

3. Those that wouldn't want it even if they knew about it.

The wealth management practice we operate as father and son is dedicated to clarity, understanding, and action; our insights on enterprise-derived family wealth management come from our family's efforts to articulate and preserve a business legacy of our own.

Because of this shared experience, we're aware of the obstacles, in particular these:

• Business and wealth-transfer strategies. Multigenerational wealth strategies need to be calibrated to unique needs and circumstances.

• Family meetings to exchange ideas with all family members. It may be hard for some families, but such gatherings—which these days can, of course, be virtual—can lay the foundation for proper communication and legacy wealth management through governance structures that are robust enough to reflect a family's evolving mission, values, and culture. Meetings aren't much good if heads of the family aren't receptive to input from, among others, their adult children. This can be a major issue, especially when the business that created the wealth is still operating.

• The concept of fairness. Where multigenerational families are concerned, it's not the same as equality, nor should it be. Adult children tend to take their own paths in life. As a result, we find a family's intergenerational wealth and governance strategies must be customized so each family member has access to assets at a level that makes sense and supports the family's overall mission. For example, the compensation of an adult child who works to operate and grow the business may include a greater share in the equity than another adult child who works elsewhere.

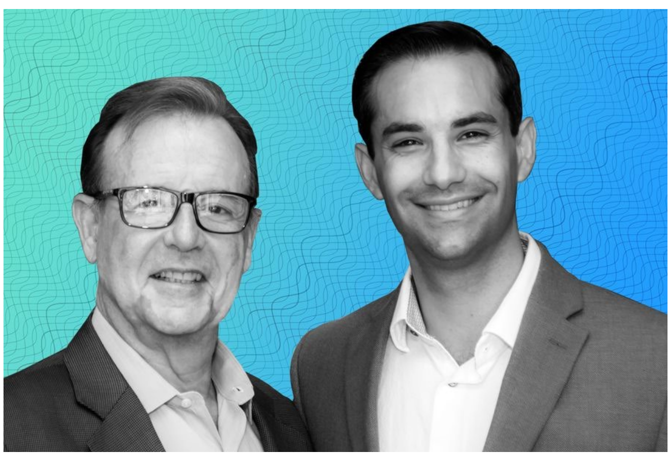
Besides inaction, the biggest obstacles to the kind of family cohesion needed for comprehensive and collaborative wealth management are:

• A breakdown of trust. Once ruptured, it is hard to rebuild. Where it's lacking, immediate action is needed. Many successful families establish forums and ground rules to help them maintain communication and foster trust.

• Heeding bad advice. Sometimes it is the fault of an advisor, sometimes it is the fault of a family. Success is typically found from a multidisciplinary approach to accounting, legal, banking, insurance, and investments.

• Leaving spouses out. Want to know how to make a family wealth management plan fizzle out? Tell your children's spouses they are not welcome to have a seat at the table. That can create an adversary within your own family (and one who spends more time with your children than you do). Spouses can add valuable outsider insight. Think of them as valuable independent directors you may have had on your board over the years.

Multigenerational wealth planning is a delicate dance that requires clarity of a family's mission so an effective action plan can be developed and refined over time.



Ahmie Baum (left) and Brian Baum

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