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FAMILY OFFICE

The Power of Effective Transparency

How to establish trust and collaboration in a complex family system

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This paper addresses the outsized role that transparency plays in ultra-high net worth families. It examines the challenges of transparency among family members, specifically among parents and their children and the motivation to maintain secrecy over transparency. The paper will argue for the power of transparency based on findings from popular experts in organizational psychology and systems theory, and it will outline methods and practices for effective transparency in complex families.

Key Findings

- Effective transparency is choosing to share details about family wealth and decision-making with intention, preparation, and care.

- Practicing effective transparency requires families to overcome several misplaced fears that get in the way of collaboration.

- Transparency builds trust, collaboration, and shared identity among family members which leads to better decisions and family harmony.

Why is Transparency So Hard?

Ultra-high net worth (UHNW) families are defined as families with more than $30 million in net assets. This means that they have generated enough wealth to have a significant impact on the long-term well-being of their children and grandchildren. Choosing how and when to share financial wealth with their kids can affect the careers their children choose, where they live, who they marry, and how they educate their children. It also impacts the long-term relationship among family members. Families that practice effective transparency share details about the family's financial investments and invite their kids to share decision-making around the wealth. Effective transparency considers not just what to share, but the ideal time to share it. Transparency is not an "all or nothing" practice. Effective transparency involves sharing the right information at the right time.

Transparency builds trust, open communication, collaboration, and shared identity. When families choose transparency, financial wealth becomes a tool that brings the family closer together. As families build trust and communication around financial wealth and its purpose, it shifts the family's focus. The financial wealth is not the "end all be all." Rather, it is a tool that the family cultivates and uses to live into a deeper purpose.

As children grow, parents grow along with them. Parents develop skills as they evolve from parenting toddlers to teenagers. One challenge that parents regularly face is that of timing. As children who are naturally curious learn and grow, parents must carefully determine the right time to share information with their kids. If your child asks, "Mom, how much money do we have," how you answer is an exercise in navigating transparency. The natural relationship of parents and children is that during adolescence, parents possess more knowledge and understanding than their kids, and it is the parent's prerogative to determine the right time to share what they know to create optimal benefit for their children. Willingness to share the right information at the right time is effective transparency.

As children become adults, they can develop skills and capacity to collaborate with their parents, siblings and advisors to become trusted thought partners. In UHNW families, adult children may have all the necessary pre-requisites to collaborate on decisions around wealth, investments, business, philanthropy, or general family decisions. While the timing may be right for adult children to work with their parents, parents often choose not to be transparent. Parents choose to hold back information and be secretive long after their adult children have exhibited the capacity for collaboration.

So many experiences reinforce how much fun comes from your kids learning a skill you possess. Once your child learns to ride a bike, isn't it fun to be able to ride bikes together? Once your child is comfortable on skis, what a joy it is to ski all over the mountain with them! If you are the CEO of a family enterprise and your daughter earns her MBA, what a gift to be able to discuss complex business ideas, lessons learned, or strategies for the future.

Yet when it comes to a family's wealth, many parents clam up. They wait far too long to be transparent with their children about their wealth and miss the opportunity to experience meaningful collaboration and shared leadership. The nature of a UHNW family is that they have significant, generational wealth that has a direct impact on the well-being of their children and grandchildren. The complexity of the family's wealth does not just affect the parents; it affects the entire family. When wealth holders choose not to be transparent with family members about the wealth, a number of problems arise that cause mistakes. Parents also pay the opportunity cost of missing the window to collaborate with their kids. Why do parents do this?

We find the most successful families are those that develop transparency and open communication with all members of the family. Transparency begins with a choice. The wealth holders must choose to reveal and share information with their children. This choice continues with decisions around timing, strategy and skills. With the appropriate mindset and plan, transparency leads to better decision-making, less complexity and the ability to share decision-making among family members.

Transparency, Privacy & Secrecy

There are two primary reasons why transparency is hard to embrace. One reason seems positive and the other is clearly negative. We will explore each of these below. First, it will help to explain what is meant by transparency, privacy, and secrecy.

Transparency

Transparency is not absolute. It exists on a spectrum. When we advocate for financial transparency, we do not suggest parents reveal their entire balance sheet, net worth statement, trust documents, or the family business operating agreement all at once. Just like majoring in a specific program in college where a student must pass introductory level classes before advancing to more focused courses, transparency with kids about financial wealth is best delivered in stages. This requires a balance of transparency and privacy. There is some information best kept private until everyone who will benefit from the information is ready to receive, understand, and protect it.

Client Story

The Singh family were successful operators of a manufacturing business that Robert & Sarah Singh founded in the 1960s that generated terrific profits for decades. Robert and Sarah gifted shares in the company to their three kids while they were teenagers. None of their kids were interested in operating the business, so Robert and Sarah sold it in 2010. By this time, their adult kids were married, each had two children of their own, and they enjoyed successful careers. After the company was sold, Robert established trusts for each of his six grandchildren. By the time they were in college, each trust held $3 million, and the grandchildren would have access to the funds upon their 25th birthday. Each grandchild was also the beneficiary of much larger trusts that they would receive when their grandparents died, as well as trusts that would be passed down when their parents died.

The second-gen parents decided to practice effective transparency. When each of their kids entered college, the parents established smaller trusts with $50,000. The kids were introduced to their parents' family office advisors who managed the funds. They received quarterly investment reports and were encouraged to meet with their advisors at least once a year for a performance review. The trusts were unrestricted so the recipients could spend as they wished. Their parents explained that the purpose of the gift was to learn how to manage wealth and that this was the first stage in a long process. This stage enabled the kids to learn, build skills, and begin conversations with their parents about money.

Upon their 21st birthday, each third-gen child was invited to the family office with their parents and their advisors. The parents explained where their wealth came from, lessons learned along the way (both good and bad), and they explained the rules of the road for the trusts. Most importantly, the parents expressed that they fully trusted their child. They did not talk about the "pitfalls" of wealth because they didn't need to. Rather, they celebrated their child's coming of age and expressed gratitude for the generosity and success of their family that made this possible. Finally, the parents also set up a multi-generation investment committee that meets quarterly. This process insured each child knew what to expect from the trust, how to manage it well, and how to spend wisely.

At a point when all the six third-gen members were in their late 20s-early 30s, their grandmother died, leaving each of them $20 million. The year before, the second-gen parents grew confident that their kids exhibited the skills necessary to be wise inheritors and valuable thought partners in managing the family's wealth, so the parents shared the details of the full family assets with the third generation. This enabled the third-gen to take calculated risks in their careers, make long-term plans, and wise decisions for their growing families. It also ensured that the second and third generation communicated well having established trust and open communication.

Privacy vs Secrecy

There are regular decisions that UHNW parents make that directly affect their children. Decisions such as:

- how much wealth to share with their kids and when
- defining the purpose of their family wealth
- when and how to share ownership and oversight of beloved vacation property
- whether to invite children or children's spouses to participate in the family meetings
- how to share responsibilities within the family, business ownership, and wealth management.

When children are young and unprepared, withholding information is a responsible act of guarding privacy. Once children become adults with the ability to be trusted partners, withholding information becomes an act of secrecy.

What is the difference between privacy and secrecy? Michael Slepian, a professor at Columbia Business School, has become an expert on the study of secrecy. In his seminal book, The Secret Life of Secrets, he says, "What sets a secret apart from other things we don't talk about is an intention—specifically, the intention to keep the information unknown…You can draw a line between secrecy and privacy by considering secrecy as an intention to hold specific information back, and privacy as a reflection of how much you broadcast personal information, in general." In this definition, privacy and transparency go hand in hand on the spectrum. Responsible transparency is revealing private information in a way that will benefit the recipient. Secrecy is the opposite of transparency. Secrecy is the intention to withhold information, even if you know that information will improve the recipient's well-being.

When a wealth holder chooses to wait until the time and circumstances are right to reveal information about family wealth, they are practicing effective transparency. When they choose to withhold the same information, even when they know their children are ready to receive it, they are being secretive. This secrecy can be destructive to the entire family. It keeps the next generation in the dark about information that impacts their well-being, it breaks down trust between family members, and it limits valuable dialogue that inhibits positive decision-making. So why do so many families choose to make financial wealth a secret?

Transparency and Identity

For better or worse, society equates financial wealth with achievement and identity. This is true regardless of how one acquires their financial assets. While society celebrates the intrepid entrepreneurs who achieve great financial wealth through ingenuity and grit, our culture is equally fascinated with those who inherit and manage to grow it, keep it, give it, or spend it. We celebrate those who make the most of it, regardless of how they received it. In other words, our financial wealth shapes how people see us, including how our kids see us. Shaquille O'Neal tells a story about sending his son to a car dealership to pick out his first car. His son came back with the paperwork for a Mercedes. Shaq replied, "Son, we're not rich. I'm rich." He explained that if his son wanted a Mercedes, he would have to buy it himself. The point is that in Shaq's mind, being wealthy was his identity, and he was rightly proud of it! If one is the wealth holder, it is rewarding to be the one who family members rely upon and look to for support. It feels good to be in control. This is not necessarily a bad thing. Bearing responsibility to make wise decisions for one's family deserves respect and recognition. It is hugely rewarding to be seen by those you love most as responsible, trustworthy, successful, and in control. Choosing to trust another person with private information requires a willingness to give up control. In his article, *Relationship Between Power and Secrecy*, Schweitzer says, "Trust represents a literal transfer of power: by trusting another person, one gives them control over their own circumstances in some way with the expectation that they will not abuse that control." Being willing to be transparent about financial information means giving up control over private information, which naturally feels like a loss of identity.

Transparency and Fear

The more commonly discussed reason for choosing not to be transparent is fear. There are three varieties of fear parents have vocalized around talking with their kids about money:

1 **Fear that inheriting wealth will harm the kids.**

The most common fear that wealth holders express about giving money to their kids or sharing information about financial wealth is the fear it will lead to entitlement or stifle motivation. This is especially true of first-generation wealth creators. James Grubman, author of Strangers in Paradise, argues that this fear is driven by avoidance. Some wealth creators who enter the UHNW category continue to identify themselves as middle-class. They are convinced that their kids can only succeed if they face the same obstacles their parents faced. This can lead parents to pretend the wealth does not exist and to adopt a "don't tell the kids anything, ever" mindset. Parents who adopt this mindset are likely to wait far too long to share information about financial wealth with their children, often leaving it to the estate attorney to divulge information after their death. Grubman says, "What their parents viewed as rightfully private was actually important information relevant to the relationships, planning, and identity of everyone in the family." While some adult heirs may appreciate their parents' intent to "protect" them, it is understandable that many would feel frustration, distrust, betrayal, or anger. Instead of empowering their kids to succeed, this intent of secrecy never even gives kids the chance to prove themselves or rise to the occasion.

What we have found in our work with families is that it is not the wealth that inhibits an heir's ability to achieve; it is the lack of transparency around the wealth.

Client Story

Julie grew up in a town where her family was well known. Her family once owned a legacy business that had been the major employer for the region. The business had been sold a generation before Julie came along, but there were buildings, parks, and a local school that bore her family name. She grew up comfortably but not extravagantly. She knew her family had a small family office that was operated by her uncle and an administrative assistant, but she knew little about it and never recalled a conversation with her parents or extended family about wealth or money. Julie moved to a nearby city to pursue her dream of being a teacher after completing graduate school. Shortly before her 24th birthday, Julie's uncle called out of the blue to invite her to lunch. During lunch he explained that on her birthday she would receive access to a family trust that was intended to support her lifestyle. He shared the trust was worth $60 million and gave instructions to just call the office and ask the administrative assistant to transfer funds to her bank account whenever she needed it. Julie was stunned. What would this mean for her career? Would it affect her friendships? How would it affect her dating life?!? Could she give it all away? Should she give it all away? Julie shared years later that the lack of transparency created intense anger toward her family that made her separate herself and drift away. She resented her parents for not trusting her enough to prepare her for this and explained that their lack of communication felt like a betrayal. While receiving such a substantial trust may seem like getting a winning lottery ticket, the way in which the information was shared created a breach of trust. It took Julie years to overcome the confusion and angst generated by this revelation.

2 Fear of uncertainty.

Apple has given the iPhone a welcome new feature. If you accidentally send a text, you can recall it. It is reassuring to know there is a fail-safe mechanism to ensure we can delete a message we did not intend to send. Families' fear of uncertainty derives from the fact that there is no recall mechanism for sharing information with others. Once a parent shares financial details with their children, that knowledge cannot be un-shared. This fear assumes that transparency is binary. It creates an all-or-nothing mindset that sets an unnecessarily high bar for transparency. If parents are uncertain that transparency will cause benefit or harm, they are likely to choose to maintain the status quo. This is easily solvable. Instead of thinking of transparency as all-or-nothing, think of it as a process with several stages. These stages could vary for different families, but a general process looks like this:

- **Preparing for College:** This milestone creates an opportunity for clients and their advisors to work together to explain how college will be paid for and to build skills around saving, spending, and investing. It is an ideal time for parents to begin to share stories about family wealth, demonstrate how to talk to others about money, and to develop trust in communication.

- **Early Adulthood:** Many beneficiaries become eligible to receive limited distributions from trusts in their early 20s. This opportunity opens the door for parents to reveal more about their family wealth, share the history of the family's wealth, lessons learned, and rules of the road for how trusts can and cannot be used. It is an opportunity for multiple generations to ask questions, share stories, and learn from each other. Some families choose this occasion to create an investment committee that becomes a forum to teach skills, best practices, and valued family wisdom over time.

- **Becoming a Trusted Thought Partner**: Beneficiaries commonly become sole trustees by their mid-30s to early 40s. Parents now have the platform to reveal the comprehensive state of their family wealth with their child or grandchild. While they may not yet be beneficiaries of the entire family wealth, this decision to be fully transparent builds on the work of prior years by allowing properly prepared next-gen family members to become fully integrated thought partners with their parents or grandparents.

The key component in practicing transparency is to prepare the children who will receive family wealth. Parents can consider what skills their kids will need to develop so that they are prepared for transparency. Once the parents have defined the necessary skills and the kids have proven that they have mastered them, both parents and kids can feel confidence that they have the capacity to receive the information and work together. Uncertainty becomes a non-issue.

3 Fear of disappointment.

This may sound surprising. In our work with families, we periodically hear wealth holders express anxiety that their kids will be disappointed that the family's financial wealth is not greater. This is true even of families with hundreds of millions of dollars. Wealth anxiety does not diminish as net worth rises. If a family is surrounded by many peers of equal or greater wealth, the feeling of scarcity can take hold regardless of the amount of their financial wealth. If a family places too much emphasis on financial wealth, there is no such thing as enough. They may pay too much attention to those with more and assume that their children do the same. When a family equates wealth with safety, they pay more attention to the factors that could cause them to run out of money. The good news is that wealth anxieties can be altered. With the right approach, wealth holders can articulate their own anxiety to their kids and talk about how they have worked to acknowledge them. Being transparent about the financial wealth leads to transparency about what they have learned by accumulating and holding significant wealth. Whether kids are disappointed or not, having greater transparency allows each member of the family to make wiser decisions so that they can achieve their goals.

Summary

Choosing transparency is not without risk. As we have explored, the heirs are not the only ones who need to develop new skills. The parents must embrace a growth mindset and develop skills as well. Practicing effective transparency is a rite of passage for parents and their children. Roles will change. Once the wealth holder shares financial information with their adult children, they invite their kids into a collaboration. This requires the willingness to give up control and privacy in favor of collaboration and trust. Being transparent also requires the parents to overcome fears. While practicing transparency around family wealth and decision-making requires risk, the rewards are boundless. Trust empowers and encourages family members to be curious and learn from one another. This transforms their family wealth from something parents feel they must protect their kids from into a source of family identity and meaning. Families who trust each other and communicate well do not just develop better estate plans or preserve their wealth for longer periods of time; they genuinely enjoy working together. True thriving is not simply preserving family wealth; it is the regular experience of family members enabling each other to be wise, confident, creative and successful. Every family can thrive. The journey begins with transparency and trust.

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