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Managing sibling wealth disparity

BY DOUGLAS BAUMOEL AND BLAIR TRIPPE

FORGING A CLOSE RELATIONSHIP among siblings during childhood is hard enough, but as siblings become adults, disparities in wealth that may develop can challenge even the strongest relationships. In business-owning families, the potential ramifications are extensive. The dynamic doesn't just play out in the personal lives of the immediate family; it also can impact the alignment of corporate vision, tolerance for risk and overall decision making, thus affecting all stakeholders.

Understanding sibling wealth disparity

The underlying causes of sibling wealth disparity are important to consider because they raise issues of entitlement, individual responsibility, fairness and intention. Did the wealthy sibling earn his or her wealth through hard work and talent? Did the less well-off sibling lose his or her wealth through bad judgment, frivolous spending or illness? Did one sibling marry into wealth? Did the allocation of inheritance benefit one branch disproportionately? Do all siblings agree that more inheritance was due to the one who cared for Mom and Dad in their old age? Do the siblings share the same understanding of what caused the disparity in wealth?

Sibling wealth disparity also must be viewed in terms of relative need, or perceived need. The brother with no children, a good job and a modest lifestyle may view a significant inheritance as a windfall that enables him to travel. His sister may be facing college tuition for her three children, a mortgage and expenses barely covered by her income and her husband's. To her, the same inheritance may just help cover necessities, and she may feel that, based on her needs, she should have received a larger share. It is easy to imagine how resentments over inherited money could take root between these siblings.

Behavior, lifestyle choices and frugality all derive from one's core values. When these are not shared or mutually respected, siblings' perceptions of financial need may not be aligned. This can lead to misunderstandings, miscommunication and outright conflict. Put another way, without common values and mutual respect, the siblings may lack a common language to talk about the use and purpose of money.

The existence of sibling wealth disparity does not, in itself, cause conflict. Although there may be jealousy or disrespect lurking in the background, how the family responds is determined by how the wealth is used (or not used), coupled with perceptions of individual need among the siblings and the underlying causes of the wealth disparity.

The ability to manage wealth disparity can help strengthen bonds among siblings.

The sibling relationship

Siblings typically experience each other as children and go through a period of separation. During the separation period, they establish a sense of self, independence and purpose. The re-establishment of siblings as a family unit in their adult years must often be an intentional process. The process requires energy and commitment from each sibling, as they each must overcome the emotional baggage and behavior patterns they carry from childhood.

Enterprising families may face an additional complication. Family wealth or access to a family business may delay or inhibit the process of separation and self-discovery. Siblings who remain connected to the family for financial and professional reasons may have difficulty growing out of their childhood relationships. They may fear the loss of economic benefits if they don't stay connected to the family (or the family business).

The rewards for siblings who can re-engage successfully as adults are significant, because the sibling bond can be the most durable and reliable of all relationships. They may not always be the closest of relationships, with frequent contact and camaraderie, but they can still be among the deepest. The ability to manage wealth disparity can be of great value for strengthening bonds among siblings.

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Steps for handling sibling wealth disparity

The starting point for dealing with wealth disparity is having a common understanding of what family means for this generation and developing a shared vision for how to be a family in the future. This shared vision, based on the identification of shared values and expectations, should provide insight into the following questions:

- What does it mean to be a close, multi-branch family?
- How close to or involved with each other do we want to be?
- To what extent should we be able to rely on each other emotionally, financially and socially?
- What is our shared mission as a multi-branch family? Do we have one?
- How might we each deal with differences in our lifestyles, values and behavior?

If siblings can answer these questions in ways that are compatible with each other, they will have a strong foundation to manage the challenges of wealth disparity. Beyond identification of a shared vision and commitment to that vision, there are practical steps that can be taken to manage sibling wealth disparity.

1. Try to forge a common understanding of the reasons underlying the wealth disparity as well as the relative financial needs of each sibling. These discussions are likely to touch on issues of respect, entitlement, values congruence, differing perceptions of history and a host of other difficult topics. It is often useful to have a facilitator experienced in family wealth advising to help the siblings, and their branches, find a way to understand and accommodate the inevitable differences among them.

2. Create a shared understanding for (or an agreement to disagree about) how wealth should be used, preserved, borrowed and shared for the purpose of achieving the shared family vision. Find opportunities for purposeful dialogue around these topics. Individual branches may want to first discuss this among themselves in order to clarify their own values concerning wealth. Inter-branch loans should be carefully considered and managed by a third party if possible.

3. Institutionalize decision making regarding items that reflect shared family values and the family mission regarding wealth. For example, if education is a family value, the wealthier siblings might create a shared education fund to benefit the children of the less well-off siblings. Similarly, if entrepreneurism is valued, a family venture fund might be created. These and other similar funds could be defined and their objectives articulated in a family charter. A family council might be created to manage and govern the application of these benefits through succeeding generations. There are many models that families have used to manage shared wealth, such as family foundations and family offices.

4. Parents can help by making their intentions clear and by seeking proper advice concerning their estate plans. So often, the futile search for what is "fair" ends up creating an even more difficult situation for the next generation. Parents should have the courage to tell their children why they have made specific decisions and allow them to share their thoughts. In addition, parents must understand that there is a limit to what they can do to make things "fair." They must also instill in their children the responsibility to treat each other fairly.

5. Create guidelines for situations like shared vacations, use of shared vacation properties and holiday gift giving. The guidelines should enable each branch to participate in a manner that is affordable and reflects the family's shared vision.

6. Create standards for wealth preservation, including estate planning, insurance, investment management, inter-branch loans, prenuptial agreement requirements and social behavior (e.g., sobriety, risk taking). Provide access to appropriate professionals for all branches.

7. When a family business lies at the heart of the family wealth, it is important to professionalize the business. Create a proper, independent board and have well-articulated policies governing executive compensation, dividend distribution, family employment and conflict management.

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8. Understand that it is not necessarily the wealth disparity that causes conflict; rather, the values, history and behavior related to the wealth are at issue.

A foundation for the future

The adult siblings' relationship will serve as a model for the next generation (the generation of cousins). An incentive for this work is that it will, hopefully, build a stronger and more cohesive next generation.

Working and owning assets together is challenging, but sibling wealth disparity does not have to separate families. Developing a shared understanding and vision for the family, forging a common understanding of the causes of the wealth disparity, understanding both shared and individual values concerning wealth, and developing clearly defined goals and processes go a long way toward managing conflict over generations. If well managed, potential conflicts related to wealth can be opportunities for making the family business more successful and the family stronger. FB