

## Chapter 6 - Counteracting Affluenza and Entitlement in a Family Business

Dave arrived a few minutes late for the start of the group run — just in time to see that the others, as per their ‘rule’, had already taken off and were at least a block ahead of him. Determined to catch up, he set off quickly, only to discover that, for some reason, everyone was running faster than normal. That happened occasionally, influenced by the weather or the whims of whomever was the self-appointed pace runner of the day.

Consequently, it took Dave longer than he expected to pull alongside Jim, who was leading the group at the time. Running side-by-side with him, Dave used the opportunity to check in with Jim on how his Family Mission Statement and Family Constitution discussions with the family were coming along.

“We are following the family meeting process you recommended, and we are definitely making good progress,” Jim responded to Dave’s question. “I do have to admit that it has been a bit of an eye-opening exercise.”

“How so?” Dave asked. “Lots of ideas or disagreement on what should be included?”

“Actually, that part has been much easier than I expected,” Jim replied. “I am happy to say that everyone generally agrees with what’s important to the family and how we should structure the company, deal with contingencies, communicate amongst ourselves, and so on.”

“So, what’s the ‘eye-opening’ part?” Dave pressed.

“You recall how I started this whole process because of my concern about my in-laws wanting more say in how the family business was to be run?”

“Yes, of course, I remember. Is that still an issue?”

“Actually, I think that concern has largely been dealt with through our Family Constitution, in particular. Where I am being a bit surprised, however, is with my own kids. Some of the things they have been saying and asking for seem a little excessive and selfish to me.”

“Do you mean that they want to have more of a say in the business too?” Dave asked.

“No, it isn’t that. It is more on a personal level than anything. I don’t think they realize or appreciate what has gone into building our business. All they see are the benefits — the lifestyle we live, the things they have, the opportunities we have worked so hard to provide.”

“Are you saying that they are ‘spoiled’?” Dave joked, somewhat sarcastically.

Jim didn’t seem to appreciate the attempted humour. He went on.

“My wife and I do want our children to benefit from the rewards of our labor, so to speak, because there were certainly times in the early days when the opposite was true — when we couldn’t give them everything we wanted to because the business was just getting started and we needed all our financial resources and our full time attention to get it off the ground.

“I confess that as the business prospered, we may have overdone it a bit to play ‘catch up’. They are wonderful children, but I guess we just expected them to better understand the value of things and to be more grateful.”

“There is a name for the sense of entitlement some family members feel when the family business is doing well — it’s called ‘affluenza’. You’ve heard of it, I am sure.” Dave said, more seriously.

“Yeah,” Jim said thoughtfully. “Didn’t some teenager get off lightly in a drunk-driving accident because his lawyer argued that he suffered from affluenza — that he didn’t know boundaries because his rich parents didn’t give him any?”

“That is an extreme example to be sure,” Dave responded, “and I seriously doubt we are talking about the same sort of thing with your kids!”

“No, of course not!” Jim emphatically confirmed. “It is apparent from our conversations around our Family Mission Statement that my children have high moral values, which my wife and I would like to believe, we were somewhat responsible for nurturing. Maybe it’s a generational thing. I would just like to help them develop a stronger sense of the value they get from being part of a family-owned business.”

“So, here’s an idea,” Dave offered. “You and I are meeting with Alan next week to review your Family Constitution document and see if there are additional governance things you need to do. Why don’t we discuss this with him? I am sure he has seen lots of these situations in his law practice and has devised some practical solutions.”

“That’s a good plan,” Jim agreed.

Dave made a mental note to make it happen.

The following week, Dave and Jim met with Alan at his law office to review Jim's corporate governance documents. It didn't take Alan long to congratulate him.

"Jim, you have done good work here. Your thoughts, details and structure are sound, and I like the informal language and tone you have taken. For example, instead of titling a section 'Dispute Resolution', which I have seen in many of these types of documents, you called it 'It's OK to Disagree'.

"I thought it was more reflective of the way we have always communicated amongst ourselves and I wanted to reinforce that we should not let this process get in the way of our family style."

"Great," Alan continued. "I have made a few suggestions that are notated in the documents themselves. Obviously, any changes are yours to accept or reject — just a few of my thoughts based on experience."

"That's why we have engaged you, Alan — for your experience!" Dave declared. "Now, can we move on to the issue I called you about last week?"

"Ah, the dreaded affluenza disease!" Alan teased, before adding, "Actually, it is not a real disease in the clinical sense, and I certainly shouldn't make fun of it because its symptoms and treatment can be both disruptive and destructive to family relationships.

"Did I ever tell you about the time the son of one of our family business clients showed up at my home late one evening demanding that I give him \$50,000 because he wanted to buy a new car early the next morning for a road trip he and a couple of buddies were planning?"

"No, I haven't heard that one!" Dave chuckled.

"Nor have I," Jim joined in.

"This guy wasn't a teenager — more of a young adult and he was a minority shareholder in the family business as well as an employee. Of course, I explained to him that I was the company's lawyer, not their banker and that even if his request was a proper one, which I didn't think it was, he should reach out to the family business leadership to discuss.

"He became angry with me, saying that the company's year-end was coming up and he knew there was going to be a substantial dividend distribution and that he was entitled as a shareholder to his portion and he wanted it NOW!"

"Whoa, how did it end?" Jim asked.

“Pretty much as you might expect — he stomped away saying that he was going to get the CEO to fire me! Of course, I had to alert the CEO, so I called him that evening and asked for an early breakfast meeting the next morning.

“When we met and I described the incident, he just rolled his eyes and said, ‘That’s Carl alright, and this isn’t the first time something like this has happened. I will deal with it.’

“I didn’t want to leave my client at risk that this might not be the last of this type of behavior, so I pressed him further for his thoughts on how to reduce that likelihood. I asked him why he thought Carl felt he could do something like this.

“He said that Carl was a fast-rising star in the company yet seemed to be in a constant state of dissatisfaction - unfulfilled by what he had achieved and always wanting more. He said that he had observed Carl become increasingly materialistic despite his rapid rise through the ranks and progressive raises in his compensation and shareholdings.

“I asked about Carl’s social network, if, for example his road trip buddies were like him. He said he didn’t know them well but from their brief encounters, he quickly assessed they were. They were in a similar upward trending financial situation and seemed overly focused on earning money.

“I mentioned that I had recently read how second and third family business generations with growing financial privilege were sometimes susceptible to a self-perpetuating sense of entitlement as the rewards for the hard work and sacrifices made by the founders started to trickle down into their lifestyle and experiences. In the extreme, they might even feel they have earned their way into a better social class, and as a result, rules of society that had applied to their family, no longer apply to them.

“I went on to say that symptoms of affluenza often also result in strained personal relationships, depression and difficulty interacting with others, which can translate into unrealistic demands and rudeness which are clearly observable in Carl’s behavior that evening.”

“Well, my situation isn’t as anywhere near as severe as what you are describing,” Jim interjected, a bit defensively. “My kids are honorable, and I hope would never behave like Carl. I just want to be sure we eliminate the risk by helping them better appreciate what they have and where it came from.”

“So, Alan, I am sure you gave your client some advice,” Dave said. “Do you mind sharing?”

“Not at all, and Jim, I am not suggesting your children would be as easily swayed from the values you and your wife have instilled in them or that you would ever allow things get to such a state. I just wanted to share an extreme example to illustrate just how far something like affluenza can go.”

“No problem, Alan. I love your stories and I know you are just trying to be dramatic to emphasize the point. So, what did you recommend to your client?”

“First, I suggested he review their Family Mission Statement, since it was built on foundational family values. He should make sure it included adequate reference to regular, honest communication, appreciation for the opportunities the business offers, and a sense of responsibility.

“I offered to re-visit the Family Constitution we had created a few years prior to see if it contained appropriate policies and guidelines to diminish entitlement, dysfunction and the conflict that can occur as a result, now that children affected by the family business were becoming adults and more directly involved.

“Then I noted that many successful family businesses have been able to counteract some of these issues by nurturing stewardship and encouraging participation through philanthropic initiatives. Philanthropy has proven to be an effective way for the next generation to gain an appreciation for their success and become responsible stewards of the family business.”

“How would that work in my family with my children?” Jim asked.

“I think the path to stewardship for children is to develop a sense of value, pride and responsibility for their good fortune rather than using it as a definition of who they are. We should provide opportunities for them to use their financial capabilities for good purposes, particularly the ones that are important to them.”

“My wife and I are strong supporters of the arts community, but our daughter’s passions and loyalties are very different” Jim offered.

“Knowing a bit about your family from our years of chatting on our runs, I recall that your daughter loves animals, right?” Alan said.

“Yes, she’s crazy about them. I think she believes they are better than humans and she’s probably right!”

“Then, would she would possibly be interested in financially supporting the city animal shelter?”

“Of course, she would!” Jim answered immediately as he was struck by the obviousness of Alan’s suggestion.

“The younger generation who grow into or inherit wealth,” Alan continued, “need to go through a personal development progression that takes them from evading responsibility or mismanaging their wealth to grappling with its meaning and purpose in their lives, to finally reaching a mature, unique adult identity as a wealthy person.

“Introducing children at a young age to family values through philanthropy can help them build confidence and provide comfort in the increased identity of their family and, as they come of age, they will already be practicing and contributing to the family wealth in constructive ways.”

Alan paused for a moment to let Jim think.

“I could make this part of our next family meeting,” Jim finally said. “We do have a general reference in our Family Mission Statement to philanthropy, but I think we can bring it to life with deeper discussion. We can be more specific about whom and what we want to support and compare our philanthropic mission to the values of the receiving organizations.

Jim was on a roll.

“We could help our kids build their skills in evaluating the charities they feel are important to our family, so they begin to see the other benefits of wealth and become accountable for their own choices. Then they could each put together a presentation to pitch their ideas and explain the impact of giving to the rest of the family.

“We could establish a criteria-based decision-making process for determining how giving is distributed. This will be a vehicle for inter-generational involvement to build family unity, pride and operationalize our family values.”

“You’ve got it!” Alan exclaimed.

Dave jumped back into the conversation. “That’s awesome for younger children, Jim, but what about older family members — the adults who may also have a bit of affluenza, like Carl in your story?”

“Sure, the truth is that in most family businesses, attitudes of entitlement are more subtle. ‘I can take all the vacation time I want because I’m family’ or ‘I will run the company someday, without having to first prove myself to the employees’ are examples of assumptions of privilege that can lead to trouble.

“Family businesses that have endured and remain connected through multiple generations are watchful and attentive to the hazardous attitudes that may come with success. They also try to create a positive environment that inspires a strong work ethic in the younger generation and cultivate awareness of the responsibilities that go with ownership.

“As Jim has already done, his Family Constitution addresses such issues as ownership, management control, family involvement in the business, and long-term strategic direction of the business. A Family Council can help ward off affluenza and sense of entitlement in several ways.

“For example, when children enter the business, the Family Council can establish a principle of compensation based on market value for the job from the beginning. It can create individual plans that help each member of the family determine his or her own professional goals.

“It can ensure that all family members who enter the business get regular feedback about their performance from someone besides a family member, such as a non-family manager, close adviser or business coach.

“Most important, if there is a sense or a dramatic illustration like Carl, that someone is testing the limits, it has to be reeled back in quickly.”

“So, Jim, does this help with your situation?” Dave asked.

“Absolutely - thanks, Jim! Once again, you have given me a way forward.

“And as I look around your office, I see that it must be past closing time because everyone else has gone home. May I use some of my entitlement to buy you guys a beer?

“I’m in,” Dave responded right away.

“Definitely!” said Alan. “I’d like to hear how you plan to cope with all those puppies your daughter is going to want to bring home from the animal shelter!”