

FAMILY WEALTHREPORT

Exclusive Interview: How Global Families Negotiate Change Across Generations

Joe Reilly, May 31, 2016



This month an interview by family office consultant Joe Reilly, with Jim Grubman and Dennis Jaffe, authors of *Cross Cultures: How Global Families Negotiate Change Across Generations*, about their explorations of different wealth cultures and why Western ways of thinking will often not work with newer global wealth.

Family Wealth Report doesn't necessarily agree with all the comments stated below, but is grateful to be able to share them and welcomes reader feedback.

Joe Reilly: What inspired this thoughtful follow-on to your previous book *Strangers in Paradise*?

Jim Grubman: *Strangers in Paradise* has turned out to be so helpful to families and advisors in understanding those who come to wealth versus those who are raised with wealth. Our “immigrants and natives” metaphor immediately touches people and helps them feel understood. But, as Dennis and I have each worked with business families achieving success in non-Western cultures, we were struck by additional factors that seemed to challenge certain families.

Dennis Jaffe: As we gained experience with families and advisors around the world, we came to learn more about the influences of each family’s “culture of origin” that Western perspectives did not capture. We both are research thinkers and academics, as well as practitioners. We were intellectually curious to understand what we were seeing and experiencing, including the failure of Western models to sometimes help Asian, Middle-Eastern, Indian, or Latin American families, for example.

Joe Reilly: Could you briefly describe the three different global cultures that provide the foundation for your book?

Dennis Jaffe: New research in cross-cultural psychology and anthropology suggests that there are three broad cultural styles around the world. For convenience, we call these Individualist, Collective Harmony, and Honor cultures. Most people have a general sense of the first two – Individualist culture is roughly akin to Western culture, while Collective Harmony culture is relatively synonymous with Eastern culture. The understanding of Honor cultures has been the breakthrough, plus all the detailed ways the cultures differ from each other.

Jim Grubman: Individualist culture is prominent in Northern Europe, the UK, North America and Australia, with colonial history leaving elements in some developing nations. Individualist culture is steeped in the principles of self-sufficiency, rationalism, individual achievement, and the elevation of personal freedom and dignity above all else. The purpose of the family is to help each individual member develop a fulfilling life, maximizing his or her potential. Children are praised for their individual achievements and expected to seek their own path in life.

Leadership in Individualist culture can take many forms, from a strong individual leader to a committed team that collaborates; there is no one best model, we can draw from many models including highly consensual decision-making models. The leader's authority is tempered by the overriding rule of law that guides decision-making, insures fair dealings, and counters overzealous attempts by any one individual to grab power. Other cultural principles include the idea that people are to be treated equally and fairly, that men and women are assumed to be equal, and that people can speak up and have their voices heard, no matter their age or position in life. Communication is direct, open, transparent, and forthright. Business and financial dealings must be transparent, specific, and orderly according to rules and regulations.

Individualist culture has many great strengths and is gradually spreading into other cultures. But we have to keep in mind that the very strong focus on the individual has also weakened the “glue” that has traditionally provided a stronger sense of community and family cohesion. It also can weaken our ability to put our personal agendas aside in service of the greater good.

Dennis Jaffe: Collective Harmony cultures encompass South and East Asia, with elements in places like Japan and Indonesia. Harmony culture is built on essentially Confucian principles elevating loyalty and obligation to family, respect for parents and other authorities, knowing one's place, respecting one's legacy and ancestors, and supporting the whole group rather than one's individual position. The concept of “face” is central to Harmony culture – “face” contains elements of prestige, honor, respect, reputation and influence, but it is much more socially determined than our Western equivalents of self-worth, shame, embarrassment, or social position.

Identity is defined by family and role, not so much by individual achievement. One's task in life is to honor one's family and live one's assigned role elegantly. Every son and daughter has an obligation to protect and nurture the family as well as to respect the long history of traditional wisdom. Elders are venerated.

Anything that disrupts or threatens family relationships is to be avoided. Communication and behavior tend to sustain relationships and mutual respect. Indirect, relatively ambiguous communication allows everyone to feel comfortable and avoid undue conflict. Direct assertive, explicit communication risks

tearing at the bonds between individuals and their social network if not handled carefully, especially in families.

The strength of Collective Harmony is its connectedness. It also creates its greatest challenges, which are slow innovation and change. Elders may hold too tight to their traditional ideas and discourage the open communication and collaboration so necessary for adaptation in a rapidly changing world. The younger generation may in turn be reticent about speaking up and sharing feelings or ideas with parents and elders.

Joe Reilly: What about the third culture you mentioned, Honor Culture?

Dennis Jaffe: Honor cultures around the world are an extension of tribal or clan society, marked by fixed, elaborate, and ordered social hierarchies based on relationships. It is common in Southern and Eastern Europe, Latin America, the Middle East, Africa, and India, with elements in places like Indonesia and Russia. The family is the social and economic focus of life, with strong leaders who may be loved but are as likely to be feared and certainly obeyed. Women are respected and worshiped, but until recent decades women have often had a limited role in leadership and executive positions.

What you need to understand is that many Honor societies contend with instability in the society surrounding them. With unstable and frequently shifting governments resulting in wavering rule of law, families and tribes learned to manage themselves and their vulnerable members. As a result, they provide stability, trust, authority, and accountability within their environments of risk.

Honor families (and family enterprises) often have a highly political culture based on one's relationship with those in power. They root their trust in their family and allies, and distrust outsiders. Career choice, academic achievement, and, in traditional families, marital options are evaluated by the impact on the collective family. Excessive self-determination and independence are seen as potentially dishonorable and disrespectful to the family.

Transparency (so prized in Individualist culture) is actually a danger in Honor cultures because the rule of law is shaky and families are vulnerable to outside threats. That's part of why the Common Reporting Standard and FATCA are causing such consternation around the world. Knowing who owns what may be great for tax-collection purposes, but it takes away the privacy of families who may have a legitimate need to be protected from prying eyes and unscrupulous competitors.

Honor culture helps families and clans build and preserve wealth across generations. But the indirect communication, hierarchical leadership and decision-making styles, and slow pace of change often create problems in a fast-changing world of greater transparency and adaptation.

Joe Reilly: In the book you discuss the journey up the wealth ladder that many families make, but there is often also a journey across these cultures. Can you talk more about this idea of making a “journey across?” What does it mean?

Dennis Jaffe: While every newcomer to wealth migrates up the economic scale, this journey takes

different forms depending on the culture where they live – the US, for example, compared to Latin America or the Middle East or Asia. But as their wealth increases, they begin to encounter other cultures. An entrepreneur from a poor Chinese village may move to an urban area where people come from several cultural traditions, not just from within China but from around the world.

What's more, their children are "natives" within a more global community and – due to education and travel - their friendships and experiences include elements of other cultures. For example, in Western schools they may be required to be less ambiguous and more direct in their communication, or asked to form bonds of trust with a work team whose background differs sharply from theirs.

Thus, the "journey up" to wealth no longer takes place within a single ethnic cultural tradition lived in and accepted without question. Greater wealth and success in the family enterprise is complicated by the "journey across," to a multicultural, pluralistic world with markedly different traditions. The family then must understand, learn about, and make decisions and agreements that blend elements of different cultures, not struggle against them.

Joe Reilly: Jim, you once said that we should remember wealth is a culture, not just a class. How do you understand wealth to be a separate culture?

Jim Grubman: People typically frame wealth in terms of social class and then have various positive or negative opinions about it. "Class" is a very emotionally and politically laden term, especially in today's environment. My comment was that people often forget that wealth is also simply a culture, one that is foreign to those 80 per cent of current wealth-holders who start life in middle-class or poor circumstances. Many families are simply trying to adjust to a radically new life and are not focused on its political or social implications. They just want down-to-earth help in raising good kids and grandkids. They are coping with the change in relationships with their middle-class friends and family, and adjusting to the jargon and complexity of things like wealth management.

As one client couple put it, "we are worried about the 'law of unintended consequences.'" We know we are guessing half the time about what to do with our new wealth. We don't want to do something in good faith that still leads to mistakes. We want help to do the right things from the start." They were looking for help in navigating the new culture they found themselves in, not anything about their new socioeconomic class.

Joe Reilly: In both of your books *Strangers in Paradise* and *Cross Cultures*, you mention that people who expand beyond the family's original culture often don't really fit in either with their home culture or the culture of their adopted home. They are like "Third Culture" people. What are their particular issues?

Jim Grubman: This is a well-known phenomenon discussed in the literature about expatriate families, missionary families, migrants, and now global family enterprises. Children in these situations are influenced partly by the heritage cultures of their parents and grandparents – perhaps originally middle-class people from a certain country or culture – and yet partly from the new, sometimes dramatically different economic or ethnic cultures they get exposed to while growing up. They wind up having many

skills in navigating the world, with greater perspective than their peers who grow up only in one culture. But they may also feel not fully connected to either world.

In today's globally connected, highly mobile world, they are more than multicultural – they are “ambicultural,” a blend of cultures. They are at home many places, not one place. If the stresses in their family are significant, they may feel truly rooted in no one culture. As one client said, “When the world is your home, you belong everywhere... and nowhere.” One advantage of strong family ties is that each generation does still remain rooted in a primary culture, whether Individualist, Harmony, or Honor culture. Your identity may be global, but you know where home is.

Joe Reilly: Is trust created differently in each culture? How does this affect how advisors can gain a better understanding of their client families?

Jim Grubman: One major difference among the cultures is how people develop trusting bonds with those outside their family – that includes advisors, business partners, and consultants. In the Individualist model of the West, people trust others who appear to have reliability, predictability, and competence. Your credentials and behavior determine who you are, what you can offer, and can be depended on to deliver. Who you know or where you came from is less relevant than what you do.

In Honor culture, and to a degree Harmony culture, there is less willingness to trust outsiders. What you do may be less relevant than who you are and who you know. Personal ties and membership in trusted networks are a much bigger source of trust. That's why it takes a lot longer and more social contact to build business relationships in Honor and Harmony cultures. It is also why, once trust is broken, it can be very hard to recover it unless you really work on the relationship.

This can be a mystery to Western advisors who are used to being taken at their word right from the beginning, closing deals and getting to know client families quickly. I've seen a lot of Individualist advisors be dismissed by Asian or Middle-Eastern prospects by going too fast, assuming too much, and not taking the time to build the relationship.

Joe Reilly: Are decisions made differently in each global culture? How can you be sensitive to these differences?

Dennis Jaffe: The cultures differ in the degree of hierarchy—the power given to the family elders or leader versus lesser family members. There are also major differences in the ability to talk up directly and to listen to individual family members with their ideas and desires. Take, for example, a family where the father and other leaders grew up with unquestioning respect for authority and little transparency. Imagine, then, that a young person from that family goes off to attend private school or university in the US or the UK where the individual matters and can speak out. He or she is likely to come back and behave in what would seem like a disrespectful manner to the decision-makers in the family. Even more so, the family may not know how to go about dealing with this, since to talk about it would be an affront to the leader's authority.

A family can be helped to understand that the elder generation grows up within a hierarchical, authoritarian, and traditional decision-making style, while the rising generation has been educated in a more egalitarian, consensual, and democratic style. In *Cross Cultures*, we show how advisors and families can adapt certain negotiating practices developed for helping global businesses come together around different cultural styles, like a German company with divisions in Brazil and China. We realized that some of the techniques from business can be applied to branches and generations of families.

Joe Reilly: You have given us a very pragmatic model to understand cultural transitions and clashes, but what about some practical advice? How can I use this model once I grasp where a family is coming from?

Jim Grubman: This is absolutely a model that can help the family's advisors step in with useful techniques. You can teach families that their intergenerational or branch issues arise from the natural cultural transitions of these financially successful families. Discuss with them how their economic journey up has become a journey across new cultures, leading to natural differences in perspectives. That opens the door to their listening to each other better rather than just defending positions. And with that, they are ready to start negotiating their own form of blended culture within their family, with the guidance of their trusted advisors.

Another practical implication is that families can learn to anticipate the effects of their culture changes. They can learn from other families that this will happen and to prepare for it. They can anticipate future challenges and prepare for them before there is a crisis. You can help families build in more resilience by helping them adapt their heritage for the new environments they find themselves in.

Finally, advisors absolutely need to prepare themselves for the new global culture of wealth. More client families have multicultural aspects to them. If you haven't already seen this with your client base, you will see it in the coming years. Advisors need to stop seeing all clients through the lens of their own cultural biases. They have to start learning broader skills for building trust with different kinds of clients, for understanding how other cultures make decisions, and for how other cultures communicate in ways that may be very foreign to the advisor. Otherwise, you will lose clients to those advisors who have these skills.

Joe Reilly: Dennis, your work with successful global families has led you to establish the 100 Year Family Research project. What have you learned so far from these long-lived families?

Dennis Jaffe: The study has been going on for four years now. Instead of the usual research analysis of average or failing families, we wanted to look at the ones that were highly successful. We interviewed two members of more than 80 long-lasting, large global family enterprises from 20 countries, families who've had a successful business or shared assets for more than three generations and also sustained connection and identity as a family. We call them "generative" families.

We've uncovered several major findings. One is that these families made a conscious decision to invest in developing a great family, not just a great business. They want to put the wealth they have generated to good use for themselves as a family, for future generations, and for their world. Another finding is that

these families always developed good governance—separating the business from family dynamics but at the same time managing either the business or their investments according to shared values. They work together as a family to make decisions in ways that are consistent with their cultural heritage.

They also develop family educational activities that regularly bring the family together, allowing them to adapt and innovate across generations. They actively encourage, education, mentor and inspire the rising generation of the family to be engaged in different roles with their family enterprises. They develop their human capital to serve the family and their social and community mission, using their resources. Basically, these families reshaped themselves to act as voluntary communities that stand for certain values. They put their values into practice in their personal relationships, business and financial dealings, and community and social ventures. They also actively recruit their next generation to be part of their family, their business, and community engagement. It's really pretty remarkable.