There is no 70% rule – improving outcome research in family wealth advising[1]

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For decades, three forms of proof have generally been offered that wealth inevitably dissipates across generations. The problem is, none has any proven validity. It is time to retire them in favour of more solid research about family wealth across generations.

Persistent myths about wealth transitions in families

The first two forms of proof have already come to be questioned within the family wealth advising field. One is the proverb, "shirtsleeves to shirtsleeves in three generations". The shirtsleeves proverb has little empirical validity other than its presumed ubiquity and its power as an antiquity adage – a saying that confirms a common belief simply because it is widely used. It also suffers from the absolutism typical of adages. Leaving no room for moderation, it is definitive – wealth fails.

The second form of proof is the widely quoted statistics that only 30% of family businesses survive through the second generation, 13% into the third and 3% to the fourth. These come from a single study by John Ward and associates in the mid-1980s.[2] Ward analysed public records on a cohort of 200 family businesses in a single industry (manufacturing) in a single region (Illinois) with the criterion of success being whether majority family ownership passed to the next generation. From a methodological standpoint, the Ward (1987) study has significant limitations.[3] Its most serious problem may be its underreporting of positive or orderly planned outcomes for family businesses, therefore presenting an overly negative pattern that fell prey to oversimplification.

After an innovative call for replication using better research design,[4] a well-crafted study in 2011 found essentially opposite results from Ward (1987). Focusing on what happens to business families, not individual businesses, researchers found significant longevity and success across generations as families pursued multiple entrepreneurial ventures. As a result, except for its still-frequent repetition in popular and professional writings, the 30-13-3 story has been dispelled using more thorough research.

The re-evaluation of the Ward (1987) study is highly relevant for the third accepted myth, never critically examined until now. It too has significant shortcomings which undermine its value for modern family wealth advising.

The Williams and Preisser 70% rule

Starting in the late 1990s and continuing to the present, Roy Williams, Vic Preisser and their colleagues have asserted in multiple articles and books that there is a "70% failure rate of wealth transfers" from the first generation to the second. In their widely quoted 2003 book, *Preparing Heirs*, they propose a fundamental question:

> *"What is the 'Success Rate' for the transfer of wealth?" This question has been the subject of studies over a number of years. Referring to the most recent studies, the Massachusetts Institute of Technology and* The Economist *independently cite the worldwide phenomenon of a* ***70% failure rate in wealth transitions****. Remarkably, it didn't seem to matter where in the world the transition took place. Countries with no estate taxes, or a 'New World Economy' or 'Old World Economy,' all had similar results – a* ***70% failure rate from one generation to the next*** [emphasis in the original].[5]

In this and other writings, Williams and Preisser reference this failure rate as being from multiple responsible sources globally. It was purportedly the motivation for doing their own research into the causes for family transition failures (discussed below).

However, carefully tracing the many citations in their articles and books through every footnote, endnote and reference – followed by examining the original sources cited – uncovers a consistent finding: the *70% rule comes only from the Ward (1987) study*. A 70% failure rate of family businesses is simply the inverse of a continuity rate of 30%. There is no other substantiated evidence, only anecdotal comments by early family business consultants or indirect references pointing back to the Ward study. Specifically:

- The MIT reference in *Preparing Heirs* cites a 1983 article by early family business researchers Richard Beckhard and W Gibb Dyer which states, "Despite the prominence of family firms, leaders of family businesses have had difficulty managing them successfully over time: many go out of business after ten years, and only three out of ten survive into the second generation".[6]

The pattern of citing a 70% failure rate for wealth transitions is ongoing within the industry and in multiple commentaries.

The reference to three out of ten family businesses is a clear though unattributed reference to the Ward study, performed in the early 1980s and published in 1987. There was no study by MIT on its own.

The allegation that many family businesses fail within 10 years comes from a 1982 book, *Success and Survival in the Family-Owned Business*, by Pat B Alcorn, which states, "… Family businesses usually fail in the first 10 years of operation; if they escape the grasp of this statistic, they are likely to be successful for an average of 24 years. It is more than a coincidence that the average time between the start of a family operation and the death of the founder is 24 years".[7] Alcorn gives no evidence for these strong allegations which remain unsubstantiated and have disappeared from the family business literature.

- *The Economist* reference is from a June 2001 issue called "The New Wealth of Nations", a collection of articles about the dramatic increase in economic wealth now associated with the dot-com era. In the lead article, journalist Matthew Bishop quotes Adam Smith in the classic *The Wealth of Nations*: "Riches, in spite of the most violent regulations of law to prevent their dissipation, very seldom remain long in the same family." Bishop adds, "To this day it remains exceptional for families to retain great wealth for more than three generations, if not always for the reason Smith suggested." There is no reference to any 70% rule.
- Before *Preparing Heirs*, Roy Williams published lesser-known books in 1992 and 1997 discussing his views on wealth transitions.[8] Then, in 1997, a subset of the Williams and Preisser research itself was detailed in an article in the *Journal of Business Ventures* by Williams and his colleagues.[9] Introducing the difficulties of family business transitions, the authors state:

  … The dominant strategic issue shared by these firms is the question of succession, which is reflected in their survival rates over time. The available evidence suggests that only 30% of these firms survive into the second generation of family ownership, and 15% survive into the third generation (Kets de Vries 1993; Ward 1987).[10]

  This is one of very few direct references to the Ward (1987) study as the foundation of the 70% rule. The seemingly independent reference to Kets de Vries (1993)[11] actually just cites Beckhard and Dyer (1983), including the unsubstantiated assertions described by Alcorn (1982). No primary research is described by anyone other than Ward (1987).
- In a 2010 *Trusts & Estates* article, "The Future of Estate Planning", Williams and Preisser cite *Barclay's Wealth, Volume 3* (2007), a video panel discussion with industry experts, for the 70% rule. A transcript of that video reveals a single relevant comment: "Some experts believe that only one in ten family fortunes make it to the third generation." The other reference is to their own 2005 book, *Philanthropy, Heirs and Values*, which recycles their references about the 70% rule and therefore provides no new evidence.
- *Bridging Generations*, the 2017 book by Roy Williams and Amy Castoro of The Williams Group, continues to reference Beckhard and Dyer (1983) and *The Economist* article from 2001. An additional reference cites a "2002 American Family Business Survey, conducted by the Mass Mutual Financial Group and the Raymond Family Business Institute",[12] seemingly independent of but supporting the 70% rule. However, in 31 pages of detailed survey results, there are no new references beyond the 30% continuity rate from Ward (1987). The challenges of family business succession are noted in general terms, but no research is cited about those challenges.

The pattern of citing a 70% failure rate for wealth transitions is ongoing within the industry and in multiple commentaries by journalists, wealth managers, estate attorneys, family business consultants, and firms marketing coaching and training. Its limited origins in a single early-1980s' study have become quite muddled. In a 2019 white paper, *Prepare Your Heirs: Why it's so important for families to work together as a team*,[13] still available on The Williams Group website as of early 2022, they refer to, "… the dismal 70 percent failure rate of wealth transition that *our research has revealed*" [italics added for emphasis].

Understanding the Williams and Preisser research itself

Williams and Preisser undertook an expansive project to study the determinants of their alleged 70% rule, conducted in several subparts as outlined in the 1997 *Journal of Business Ventures* article, the 2003 book *Preparing Heirs*, and Appendix I of the 2017 book *Bridging Generations*:

- *Research protocol and demographics:* Study 1 first collected information on an initial cohort drawn from members of The Executive Committee International (TEC, now Vistage Worldwide), a peer coaching and mentoring membership organisation founded in 1957 for CEOs, business owners, and business executives to which Roy Williams belonged. Supposedly starting from Williams' involvement in the mid-1970s:

  …[o]ver the next twenty years, The Williams Group interviewed a thousand business owners and clients (some of whom managed only asset pools) to ascertain what worked and what did not [in transitions across generations]. Additionally, we interviewed another 1,500 individuals who had experienced failures in their family succession and were referred by the business owners … The families … had net worth ranging from just under $5 million to well over $1 billion, with the average range between $15 million and $70 million … 70 percent were first-generation, and 30 percent were second- or third-generation managers of wealth and/or business … The largest family surveyed had twelve members, and the smallest had three members (plus spouses and/or grandchildren). The geographic locations of the businesses were fairly evenly distributed across the United States. The primary locations were California, Texas, New York, Florida, and Canada.[14]

  Commentary: The demographic characteristics of TEC International have never been specified. It is unknown how representative the participants were, compared to US population samples during the period 1975–1995 or to the rapidly changing and diverse demographics of US and global family businesses now in the 21st century.

  Interviewing 1000 business owners over a 20-year period with results reported in the late 1990s indicates the initial interview period occurred between approximately 1975 and 1995. The 70% of respondents who were first-generation business owners with experience in business transition, potentially between the ages of 50 and 75, would have been born in the early 1900s. Interviews of second- and third-generation family members during 1975–1995 would place their parents, the first generation, as having been born in the late 1800s to the early 1900s. These study respondents from over a century ago may have had specific generational views on family communication, discussion of money within the family, sharing of estate plans, and other factors impacting wealth or business transitions.
- *Research focus:* Differing accounts discuss whether the research targeted family business succession, family wealth transition, or both. The most authoritative description of the research design is from the 1997 *Journal of Business Ventures* article, which states that the purpose "is to more systematically assess the determinants of successful business transitions"[15] even though the study is often cited as assessing wealth transitions. Later discussion of the research participants stated that, for the 2500 individuals in the study, "eighty percent were leaders of closely held operating businesses, and 20 percent were owners and managers of cash, securities, and real property interests".[16] This is consistent with the comment that some study participants only managed asset pools, not businesses.

  Commentary: The study problematically conflates family business succession with wealth transition. Four-fifths of the families had closely held businesses, dependent on strategic planning and family business succession procedures, while one-fifth only had investable assets, dependent on estate planning procedures. These are very different processes with potentially different rates and causes of success or failure.
- *Study 1 research procedures:* The research proceeded in several stages. "Structured personal interviews were conducted with a convenience sample of 20 second- or third-generation heads of family businesses … a second analysis was conducted on confidential … data obtained from work by one of the authors [presumably Roy Williams] with 40 groups of family business owners (first through fourth generation). Each group contained between 25 and 200 individuals, and the sessions were conducted over a five-year time period."[17] It was from this interview study that the main failure factors were determined to be family relationships, insufficiently prepared heirs, and "issues related to planning and control activities".[18]

  Commentary: Little information is specified about the interview format, other than it was either semi-structured or structured. How the interview process changed or was refined over the long period of the study is unknown, yet it is relevant for a type of research bias. The

natural tendency to gradually form research hypotheses can lead to altering the interview process over time, prematurely narrowing the scope of questions to focus on assumed factors and overlooking alternative explanations.

Multiple references by Williams, Preisser and co-authors state that the first 1000 interviews were of a mixed sample of successful and unsuccessful transitions. The next 1500 cases were then explicitly drawn from solicitation of unsuccessful transitions, a study of failures. This introduced a major bias to the study, since presumed factors in the failure sample were not subsequently validated in a broader sample of all business transitions to see if the conclusions held up. The presence of a factor in a failure sample does not guarantee a causal relationship. Problems of trust and communication that appear in a failure sample, for example, may also appear in successful business transitions yet not contribute to transition failure.

- *Study 1 criteria for success or failure:* The crucial outcome variable of the Williams and Preisser research is a simple, binary measure of whether a wealth transition is deemed successful or unsuccessful. Their definition of a successful transfer, however, is enormously complex. In *Preparing Heirs*, an unsuccessful transfer was defined as "any combination of taxes, losses, economic downturns, missed market opportunities, litigation expenses or financial 'reversals' … which removes the assets, involuntarily, from the control of the beneficiary" and/or "if the beneficiaries lose control of their wealth through foolish expenditures, bad investments, mismanagement, inattention, incompetence, family feuding, or other causes within their control".[19] This covers a lot of ground.

In the 2018 book, *Bridging Generations*, "[a] successful transfer of assets constitutes a proactive, carefully considered, planned strategy and structure covering the financial assets, combined with a cohesive robust process that includes all family and results in future generations retaining the family financial assets while remaining a unified family".[20] Another long paragraph adds further detail to this and re-emphasises that family unity and harmony must be preserved.

Commentary: These multifactorial criteria for success are admirable goals for families but highly problematic as the single outcome measure for a research study. In a success/failure study following good research protocol, a family would have to meet every single criterion to qualify for the "success" category. Consider, for example, a well-prepared, loving, financially competent family who reluctantly chooses to remove a disruptive family member to preserve their assets, their values and the cohesion of the remaining family. They would have to be rated as a failed wealth transfer.

If the researchers used common sense and bent the rules to rate this family a success, then the study's outcome variable becomes a moving target subject to rater bias. Other raters might make a different choice. Good research design would use either a well-defined manual for raters or a second set of raters to test for rating validity and reliability. More likely, good research design would either simplify the definition of success to fit real-world outcomes (thereby reducing the number of 'failures') or would drop the success/fail measure altogether in favour of exploring the range of outcomes associated with wealth transition.

- *Study 2 research protocols and procedures:* The 1997 *Journal of Business Ventures* study attempted to use formal assessment procedures to determine a model of causation of family business failures. A 94-item questionnaire was sent to heads of family-owned businesses having had at least one generational transition (therefore in G2 or beyond). The first subsample was sent to 500 randomly selected non-G1 businesses in the Executive Council. A second subsample randomly selected five cities in

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Indiana with a population between 50,000 and 150,000, identifying 298 businesses. From these 798 mailed surveys, however, complete data were obtained from only 177 respondents, a 22% response rate.[21]
Commentary: The narrow subsample solely from small to midsize cities in Indiana is not representative of the diverse population of family businesses in general either across the United States or globally. It is, however, nearly identical to the cohort studied by Ward (1987), which may have influenced the choice of sampling. Of greater concern is that, in multiple articles, this study is consistently portrayed as "a survey of 750 questionnaires sent to family-owned businesses throughout the Midwest" (eg, *Bridging Generations*, p173). Citing the total number of mailed questionnaires glosses over the true data sample of only 177 respondents.

- *Limitations of Study 2:* The 1997 *Journal of Business Ventures* article lists research limitations that include the fact there were no true longitudinal findings, only a single snapshot in time relying on retrospective guesses by respondents (hindsight bias); small sample sizes; reliance on self-report with no independent or collateral data for verification; the use of assessment measures never validated for use with families or family businesses; and the use of some single-measure items, reducing validity and reliability.[22] These are all very valid concerns and limitations.

In summary, the Williams and Preisser research has significant methodological flaws and an apparent lack of generalisability to the current family wealth environment. Though groundbreaking in its time and benevolent in its recommendations, its research design was built on a narrow, pessimistic view of family wealth and family business, with research flaws consistent with its orientation to failures. It also relied on a demographic cohort born around the turn of the 1900s which may be very different than the modern global arena of family wealth and business. It is, at best, a commentary on what was, not necessarily what is or what will be.

The importance of good research for a maturing field

There are compelling reasons to examine the validity of research findings in the field of family wealth advising. It is professionally responsible to ensure what is told to clients and the public is accurate information. Truth is important for its own sake.

Furthermore, clients and families make decisions based on what they are told. Even when the intent is noble and recommendations are useful, a field cannot be blind to the harm that insufficiently validated information can cause. Some families take to heart the admonition that they need to prepare future generations to receive wealth or a family business. Others, however, only hear validation of their fears that unprepared, untrustworthy, entitled heirs will destroy what was so carefully built. Families predisposed to pessimism will then seek structural solutions to bypass the family in favour of plans that will do what the founders want, without the fuss and bother of family communication or financial education. And many advisers, less skilled or enamoured of complicated family education or communication strategies, are more than happy to assist with those structural solutions due to the fees generated and the long-term relationships secured.

Finally, repeating outdated findings damages the field itself. Family wealth advising is still in its adolescence. If it is to mature, it must shed its roots in inadequately designed research and unsupported information in favour of a responsible, open, transparent, resilient body of knowledge that can withstand examination. In established professions like medicine, law or psychology, healthy discourse is encouraged. Practitioners are expected to be able to defend their findings or recommendations in open forums. Family wealth advising must similarly hold its members accountable to have well-grounded information, solid research, respectful yet critical dialogue, and empirically derived practices subject to debate and continuous improvement.

What the field needs for the future

Well-designed research about wealth longevity is sorely needed so informed decisions can be made by families, advisers and consultants. Improving on the Williams and Preisser work calls for research studies with the following characteristics:

- The objective of the study must be clearly defined as investigating what happens to wealth across generations, not family business transition. This means selecting a sizeable sample cohort at multiple levels of wealth, including perhaps the mass affluent

(US$2 million to US$5 million), high net worth (US$5 million to US$25 million) and ultra-high net worth (US$25 million to US$1 billion) segments, since there may be differences in outcome or pattern in each wealth category.

- The study must have longitudinal measures. Although understandably difficult to accomplish, a study following cohort(s) over a sufficiently long period of time would be a more accurate assessment than relying on single points in time or retrospective analyses prone to bias or error. There are many fields where long-term longitudinal research is undertaken to answer difficult yet crucial questions that can only be answered via multiple assessments. It is time to implement such a study about wealth across generations.
- The sample cohorts must be representative of the demographics of the wealth population as they exist today. This means a wide range of family types and constellations, blended families, and nontraditional families with leadership by each gender and with appropriate cross-cultural sampling. Today's global world of wealth requires a well-chosen global sample to answer the real questions in advising families.
- Criteria for determining outcomes must be carefully chosen. A simplistic binary measure of success or failure is unlikely to represent the range of outcomes occurring in families of wealth over time. It may be more useful to study the long-term patterns of wealth in families than a narrow traditional view of success or failure. Carefully analysing a variety of outcome measures will be more useful in the real world for understanding and advising about wealth across generations.
- Assessment measures must be well-chosen and implemented with careful attention to good research design. The research protocol needs well-validated measures, good statistical analyses, and avoidance of artifacts and bias that may impact the findings.

Relinquishing the 70% rule so family wealth advising can grow

As the prominent behavioural economist Daniel Kahneman has noted, people embrace information when it reinforces their confidence in a story, even when facts do not necessarily support the narrative.[23] The three persistent myths about the failure of wealth in families have lasted so long partly because the story seems so true to so many – families and advisers alike. In reality, there is no 70% rule of transition failures, whether in family business or family wealth. It is time to retire it along with the other outdated statistics and proverbs that reinforce fear and pessimism about wealth in families. Using well-designed thoughtful research, the family wealth advising field can only strengthen its understanding of the true patterns of wealth longevity for the complex, diverse families of today and tomorrow.

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1 The author wishes to thank Dennis Jaffe, Kristin Keffeler, Pramodita Sharma, Judy Green, Dan Frosh and James Coutre for their invaluable input on earlier drafts of this article.
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16 *Bridging Generations*, Appendix I, p181.
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