WELL-BEING & INHERITANCE

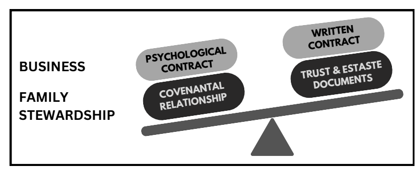
Developing the intersection of well-being science and trust & estate planning

STEWARDSHIP, INHERITANCE & WELL-BEING

What happens when family stewards meet their family trusts and estate documents? Stewardship has become a commodity in family wealth management and preservation. However, is stewardship being part of family wealth management and estate planning best for everyone's well-being? In this bulletin, we invite you to explore the intersection of stewardship, inheritance and well-being and find the answers to this question.

Our approach to family wealth and inheritance planning is research based. Therefore, it is important to understand that stewardship, agency, psychological contract and other such theories were born and developed in the space of management and organizational dynamics to understand and manage the employer-employee relationship. In this line of work, there is plenty of literature that covers stewardship as a distinctive characteristic of family businesses and its impact on their performance.

Borrowing from these organizational theories, we offer an analysis that draws a parallel between the 1) employer (organization) & employee (individual) relationship, and 2) family & family members relationship. We draw a parallel between the relationships of 1) psychological contract, and written employment contract in businesses; and 2) the covenantal relationship that rises in family stewardship, and the family trust and estate documents.



Stewardship creates a psychological contract between parents and their children characterized by a moral norm of reciprocity: 1) obligations of the children to give toward the long-term good of family wealth preservation, and 2) expectations to receive wealth from the parents as well as the sense of belonging to the family. This psychological contract can differ from the actual written provisions in parents' trust and estate documents.

The discrepancy between the psychological contract and the inheritance documents represents a contract breach that is detrimental on individuals' well-being.

STEWARDSHIP

Stewardship sits on one end of the individualistic-collective approach of organizational leadership and management. Agency theory views humans as individualistic characters who seek to always maximize their self-interest. Stewardship theory, on the other hand, considers individuals to care about a greater long-term collective benefit rather than short-term opportunistic behavior.[1]

Stewardship implies an ongoing sense of obligation or duty that binds two parties (employer – employee or family – family member in our case) to work toward a common goal. This is considered a covenantal relationship[2] between individuals and their organization or their family.

Stewardship is "the extent to which an individual willingly subjugates his or her personal interests to act in protection of others' long-term welfare."[3]

Two distinctive psychological mechanisms nurture stewardship. Both of them can be experienced by individuals and their families:

1) Individuals personally value actions that benefit long-term welfare of others.

2) The affective sense of connections with others compels individuals to care for the collective.

PSYCHOLOGICAL CONTRACT

We can make sense of the covenantal relationship of stewardship if we think of it as a psychological contract. Individuals build their sense of obligations and expectations based on repeated patterns of exchange between the parties (implicit promises) as well as on the individual's interpretation of verbal and written agreements (explicit promises).

In the wealth management industry, family stewardship is seen as a mechanism to prepare the rising generation for preserving the wealth for the following generations. All these efforts create a covenantal relationship characterized by mutual obligations and promises that require certain attitudes, behaviors, and even feelings from inheritors so that they can access inclusion, belonging, and the "deserved" wealth.

PSYCHOLOGICAL OWNERSHIP

An interesting mediator or motivator of stewardship is psychological ownership. Organizations, including families, can encourage stewardship by supporting individuals' self-determination: autonomy, competence (in control), relatedness (sense of identity and belonging).[5]

PSYCHOLOGICAL CONTRACT BREACH

Psychological contract theory is based on social exchange theory which holds that an imbalance in the reciprocal relationship between the parties, results in negative outcomes for one or both parties and their relationship. A risk of stewardship in the family wealth context is a parent over-stepping the imbalance in the family relationship. That is, the parent might unintentionally or otherwise, using the parent's senior position in the family, ask for too much and offer too little. If this happens, it could thwart the child's need for autonomy and self-determination

There are three main reasons of contract breach that can be analyzed in the context of family wealth and inheritance.

Situations such as parents changing their will to reduce or even eliminate the inheritance of one of their descendants is a case of deliberate reneging.

Unintentional reneging would include reallocation of funds that were promised to a descendant towards other priorities/investments or depletion of the wealth by parents or prior generations. This could be the case of a trust that receives the residual wealth at death of the parents but, in fact, available wealth is small or null by then.

Psychological contract breach happens, mostly, because of its subjective nature. Psychological contract is not necessarily shared by both parties. This means that both parties may have a different view on the degree to which they believe each party has fulfilled their obligations.

Psychological contract is "an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party"[4] such as an organization, a group, or their family.

Psychological ownership is "the state of mind in which an individual feels as though the target of ownership or a piece of it is "theirs"[6]

Psychological ownership emerges when the organization 1) offers individuals opportunities to feel in control, 2) becomes part of the individual's identity, and 3) fulfills individual's basic need of belonging.[7]

Social exchange theory postulates that individuals and their organizations are part of an exchange relationship and feel a responsibility to reward each other in equal value for the contribution that they have made to their relationship.[8] Exchanges are not limited to the organizations but extended to our family, friends, and relatives, and that too on a subtle basis.[9]

THREE TYPES OF CONTRACT BREACH[10]

Deliberate reneging: the organization intentionally re-opens discussions for changes on an agreement that was reached with a party.

Unintentional reneging: the organization is willing to deliver on its responsibilities or promise but it is unable to do so.

Psychological contract breach: one party (normally the organization) believes that they have met their obligations but the other one (the individual) has the perception that the organization has failed them.

While perception depends on many emotional, psychological, and cognitive characteristics of individuals, the psychological contract is formed upon repeated verbal, behavioral and written exchange of information between the family and its members.

For example, often parents want to hide their wealth from their young children by not talking about it, or not talking about their estate planning when children are adults. However, they take luxury family vacations, or they purchase luxury houses in upscale neighborhoods causing children to develop a perception of wealth that may be accompanied by expectations or promises of a wealthy life for them. In plenty of cases, adult children learn upon the death of their parents that they have been left with very little or nothing at all because the wealth has been given to others or to charity.

These discrepancies between the inheritor's psychological contract and the written contract represented by their parents' will and other estate documents is the source of unfortunate ill-being.

FAMILY STEWARDSHIP, INHERITANCE PLANNING AND WELL-BEING

The literature regarding contract breach prevention encourages organizations to build trustworthy relationships with their members, provide support, keep balanced the demand-resources equation, make realistic promises and be careful with any declaration of intent, as they become part of the psychological contract, keep clear and consistent communication to prevent misunderstandings, provide space for individuals to voice their concerns and needs, and understand that not all individuals value the same promises.[29]

Regarding the inheritance planning process, trustworthy relationships with family members require an open-door policy opposite to silent trusts and secretive documents. We encourage parents to share their trust and estate documents with their children as well as providing access to financial information to children as early as age 21.

Open communication is supportive of shaping the right expectations for all family members including needs, concerns, and desires. Manipulative actions and comments as well as the focus on stewardship as a way to manipulate children's behavior are prone to create future psychological contract breach and the downward impacts of it.

Stewardship should not compete with family members well-being. Stewardship can be cultivated by nurturing psychological ownership and individual's self-determination, which support well-being. The well-being trust offers a foundation for creating such conditions.

CONSEQUENCES OF CONTRACT BREACH

Impact on individuals and family members
A meta-analysis on perceived unfairness at work and health show that contract breach has an important impact on physical health problems, mental health problems, runout, stress, and negative state. Based on available research, we can report as follows:

Physical health: psychological contract breach is[11] negatively associated with individual's physical health including fatigue, sleep problems, and headache[12] as well as insomnia for both the individuals and their spouses.[13]

Mental health: downhearted and blue feelings,[14] psychological distress,[15] anxiety and tension.[16]

Burnout: there is a positive correlation between psychological contract breach and burnout, [17][18] including emotional exhaustion.[19]

Emotional well-being: broken promises have an impact on daily mood[20] and other components of emotional well-being.[21]

Subjective well-being: psychological contract breach has a major negative impact on subjective well-being of individuals producing high levels of self-doubt and stress.[22]

Impact on the individuals' family
There are spillover effects from the organization – employee contract breach on external third parties, including decreased in individuals' work-life balance[23] and increased conflict with their spouse and children too.[24]

Impact on parents, siblings and family relationship
From the family (organization) perspective, the consequences of contract breach create a burden for parents and/or siblings and other peer family descendants.

"Perceived breach of the psychological contract will undermine good faith, erode trust, and weaken the interpersonal bond between leader–subordinate" or parent-child for our purpose.[25] Commitment to the family decreases[26] and cynical attitudes toward the family will likely emerge.[27]

Siblings and other descendants in the same generational level might be subject to a displaced aggression.[28] The individual who perceived a contract breach would think that their colleagues had something to do with it and somehow associates them with the transgressor.

For more information on how to positively use family wealth and inheritance to foster family well-being - thriving in multiple domains of life, see our Family Wealth and Inheritance Services page or contact Richard Franklin, rfranklin@fkl-law.com, (202.495.2677), Claudia Tordini, ctordini@fkl-law.com or your FKL attorney.

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[3] Morela Hernandez, supra note 1 at 174.
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[5] See our December (How Can Charitable Giving Support Donor Well-Being), and January (Inheritance Planning Supporting Financial Well-Being) bulletins for more on Self-Determination Theory and our February bulletin for more on Self-Efficacy (Inheritance planning Supporting Financial Efficacy).
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