Money and Meaning

By David Lansky

Family Wealth and the "Halo Effect"

In a classic experiment in social psychology that I read many years ago as a graduate student, researchers used a game show scenario to examine how social roles affect the attributions and interpretations that people make about others.[1] In that study, research participants were assigned randomly to the role of game show host or game show contestant. Those who were assigned the role of host were asked to develop a set of questions for the game, the answers to which they knew, and to pose the questions to the contestants during a simulated game show. The contestants were asked to compete against each other in responding to the questions. A third group of participants, whose behavior was actually the subject of the study, were asked to observe the game show. They were told that the hosts and guests were randomly assigned, that hosts had created their own questions, and observers were asked to rate the intelligence of each group of game show participants, hosts and contestants. Consistently, hosts were rated as more intelligent than contestants. The researchers concluded, and there have been subsequent studies to support the idea, that this was evidence of a "halo effect" in our judgments about others. In other words, the perception of one quality in a person gives rise to the perception of similar qualities in related areas: A game show host who "has all the answers" is perceived as a result of his or her randomly assigned role in the game, to be especially intelligent on a broader scale.

My memory of this study was jogged as I was facilitating a meeting for a third-generation family that owns a nationally recognized company with annual revenues close to one billion dollars. . The family's name is closely associated with the company, and of about 20 family shareholders,

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seven are working in the family business at this time. While family shareholders own the only voting shares in the company, they actually collectively hold relatively few of the common shares. In other words, the family has overall control of the company, but individual family members have a minority share in the wealth that the company creates. The family long ago turned management of the company over to professional nonfamily managers, and most family members who are active in the company hold jobs that are relatively low in the management organization. Nevertheless, individual family members who work in the company, third-generation members in particular, feel "slighted" by company management. They are "last in line" to get promotions and raises and often have to ask for their annual performance and compensation reviews. Some family members have been told that they have been passed over for raises and promotions because other employees are "more in need." The problem, of course, is that because the family name is so closely associated with the company, it is presumed that each family member shares the company's wealth. Thus, the halo effect: Coworkers and employees presume that having the business family name automatically brings with it a multitude of other benefits.

I have observed other ways in which the halo effect operates with financial families. During their annual family meeting, one of my client families decided to discuss "the challenges of growing up in a family business." One of the fourth-generation family members, a young man in his mid-20s, lamented about a mistake he had made lending a close friend the money to start a business. He was uncomfortable asking his friend to pay him back. Each time the issue of the loan came up, his long-time friend told him that he did not really need the money. His lesson from this? You can help your friends with your hard work, or your advice, but do not lend them money. The halo effect operates with friends as well as coworkers and employees.

In another example of the halo effect, I consulted to a fourth-generation business family who owned an extremely well-run company. Their company dominated its niche. The family's treatment of their employees was enlightened; the family surrounded itself with competent non-family managers, and they engaged regularly in strategic planning for their business. Nevertheless, very little effort had ever been expended by the family to cultivate the "family" side of the business. There was no process established for integrating new family members into the business, individual family members had very little information about the ownership structure of the business, they were generally not well informed about their individual finances, and the family had never discussed business succession. I found myself very surprised that the family had not paid attention to these family issues. I assumed that because they ran a terrific company, they "ran" a terrific family as well. In other words, another example of the halo effect, this time affecting the thinking of one of the family's key advisors.

Finally, I noticed the operation of the halo effect when I was working with a third-generation business owner who was quite competent in running the family business, but who had not invented any new products that the company could manufacture. Both his father and grandfather had been inventors and the business was initially built upon these inventions. The third-generation owner was depressed and disappointed in himself because he and the people around him assumed that he could be an inventor in the same way that his predecessors were.

Because a family has been successful in creating a business or in sustaining wealth for more than one generation, we may be inclined to attribute particular qualities to the family as a whole or to individual family members that they do not actually possess. In spite of assumptions that are driven by the halo effect, success in one domain does not automatically bring similar accomplishments in other domains. Advisors to business families and to families of wealth should check their assumptions in this regard, because it may mean that these families are under-served with respect to appropriate educational and financial or business planning endeavors. Family members may themselves be vulnerable to the assumptions that the halo effect brings, and they may therefore feel ashamed to admit that they have not accomplished certain tasks (*e.g.*, have not completed their estate planning) or that they lack the financial knowledge that others assume that they possess.

The best remedy to the halo effect is to really get to know a family and its individual members, putting aside assumptions based on status or past accomplishments. As advisors, we must be able to treat each client family and each individual family member as a unique entity. We should be able to identify the assumptions that they and others may make about their situations, understand the confusion this may bring, and give them permission to share, in a trusting atmosphere, the challenges, questions, and deficits that they may actually be facing.

ENDNOTE

[1] L. Ross, T.M. Amabile and J.L. Steinmetz, *Social roles, social control and biases in social perception,* J. PERSONALITY & SOCIAL PSYCHOLOGY (1977), at 485–94.