



Family Wealth Institute

The Legacy Family: A Strategic Plan, Policy and Practice Manual

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Financially successful families, like most everyone else, hope that each of today's members of the family and all those generations to follow will be successful, healthy, and content. Wealth should help to make this possible. After all, the members of a wealthy family have all the advantages money can buy – the best education, the best health care, and the best connections.

Unfortunately, yesterday's wealth is no guarantee of tomorrow's success. The adage "shirtsleeve to shirtsleeve in three generations" is not unique to America. In Asia, the phrase is "rice paddy to rice paddy" and in the Netherlands it's "clog to clog." Yet, contrary to common belief and experience, some families have been able to perpetuate their success for many generations. Their progeny have become new titans in business or assumed leadership in public service, non-profit institutions, the arts and science. Their extended families enjoy each other. Each new generation seems to build on the shoulders of those who preceded them. There is a name for these special families. We call them *Legacy Families*.

What is it that differentiates a *Legacy Family* from all the rest? Legacy cannot be not mandated, nor guaranteed. It is thoughtfully designed, carefully implemented, and perpetually nourished. It is also quickly lost and easily broken. Not all those for whom the legacy was created accept or appreciate their gift. For many, it is not even a gift, but perhaps an unwanted burden.

The path of a *Legacy Family* is a rewarding journey for all those who pursue it; it requires discipline, focus, patience, honesty, and understanding, as well as a passion for working across generations. This is a journey without end, but with great benefit.

Characteristics of a *Legacy Family*

A study of *Legacy Families* reveals some important and shared characteristics.

- Capacity. Members of a *Legacy Family* recognize the importance of contributions to the financial, human, intellectual, and social capital of their family and community.



- Connection. Members of a *Legacy Family* are connected to their heritage, maintain positive family relations, communicate effectively, and promote generational governance structures which assure the success of those to follow.
- Compassion. Members of a *Legacy Family* recognize their good fortune, empower each family member to become the best he or she can be, and willingly embrace their responsibility to give back.
- Competency. Members of a *Legacy Family* develop the competencies to handle the responsibilities of wealth, effectively utilize the opportunities that have been provided to them, and become productive members of their communities.

Roadmap to a *Legacy Family*

These qualities do not occur by accident or mandate. They are the consequence of careful, thoughtful, and methodical efforts by each generation of the family group, and a reflection of a strategic decision by the early wealth creators that the members of this family will do more than live off either the economics or achievements of others. It is not a short term plan, but one which is intended to span the generations. Ideally, a *Legacy Family* has a 100 year arc, far enough away to be out of reach of today's senior generation but within sight of the youngest generation. Step one, therefore, is a Strategic Plan.

The Strategic Plan

The Strategic Plan of the *Legacy Family* focuses on the long range goals of the family, articulates its core values, establishes the process, policies, and procedures to be followed, and allocates the combined resources of the family, including its human, intellectual, financial, and social capital, to empower and challenge each generation, and to set milestones and benchmarks for the future. Every family's Plan will be different, even though it may follow a similar format. The following section will detail the structure of such a Plan.

Content of the Plan

- Statement of mission and purpose

Like every successful business, a successful family knows where it wants to go and how success will look like long into the future. Success to a family, of course, may look quite different than success to a business enterprise. It will be measured by other factors besides net earnings or market share, and it will focus on success of the combined family group as well as each member of the family. It has been said that parents are only as happy as their least happy child. *Legacy Families* are fulfilled only as much as their least content member.



- Statement of shared goals and values

The Strategic Plan contains a clear expression of the family's core values. These values bind the family to each other. They may not all think alike, vote alike, or prefer the same music, art, or poetry, but their core values, which often include respect, trust, integrity, dignity, compassion, curiosity, ethics and morality, to mention but a few, are passed down from parent to child to grandchild. These are more than statements posted on the refrigerator; the core values guide the family in its individual and collective attitudes, decisions, and behavior.

- Allocation of capital

The Strategic Plan establishes priorities in the effective utilization of the individual and combined resources of its members. Financial capital is intended to empower and create opportunity for future generations. The structure is designed to discourage indolence and dependence, and to reward hard work, initiative, and self reliance.

The family's intellectual capital is marshaled to encourage the pursuit of knowledge, through formal education, personal mentoring, and training of the younger generations. The human capital is directed to effective parenting, open communication, and resolving the family's inevitable challenges within and among the generations. The social capital is set aside to support and promote the collective and individual philanthropy of the family, and to perpetuate many of its most precious values, including compassion, generosity, and gratitude. This may be manifested by a single family foundation or multiple foundations, as well as donor advised funds and direct family philanthropy programs.

- Governance and leadership

As in any effective plan, the *Legacy Family's* Strategic Plan defines its governance system, leadership criteria and opportunity, and succession. It grants authority with appropriate responsibility, and assures accountability and communication. It sets reasonable expectations for those charged with the task of guiding the extended family as well as for those who may benefit from the combined resources of the family. There are a variety of favored structures for this purpose, including a family council, a family office, or family executive committee, but the choice of structure is not nearly as important as the process for identifying and resolving the challenges of the family through the years.

- Communication system

If there is a single factor that differentiates a *Legacy Family* from a failed financial family it is the success of its communication system. Different generations will have different levels of achievement and prominence, but each generation seems to get along and work well together, supporting each other and enjoying their relative success. Problems seem either never to happen



or to be resolved quickly. Problems do occur, but are identified and resolved without lasting injury through open and honest communication.

Most families have two levels of communication – that which is safe and that which is not. What is not safe to say or express gets bottled up, but, at some point, the pressure, resentment, and anger will be revealed. Lasting damage to the family and to relationships is the common result. In a *Legacy Family*, there is both an atmosphere that encourages real communication and a system that can deal with it in a way that attacks the problem, not the people.

The most common practice is the organized family meeting. To be successful, the family meeting must be regular, not just the result of a problem. It must be a forum for communication, conducive to problem-solving and collaborative decision-making, safe, and consistent. Everyone needs to know that this is a reliable forum to be heard and to listen to others. There is no single format; no required venue; no rule that there be outside facilitators. Each family must find its own best format. In every *Legacy Family*, the process is repeated, perfected, shared, improved, and perpetuated through the generations.

Establishing the Strategic Plan

Establishing and maintaining the Strategic Plan is one of the most important steps a *Legacy Family* can take. It requires the following elements:

- Leadership
- Persistency
- Top down and bottom up participation
- Consensus
- Documentation
- Implementation

Benchmarks, Milestones, and Assessment

Every Plan, whether in business or in families, must establish recognizable milestones and benchmarks by which the success of the Plan can be measured. Furthermore, the Plan must have regular periods of review and assessment, which may be shorter in the early years (e.g. three years) and extend longer (e.g., five years), after the routine, procedures, and systems have been tested and matured.



The Plan must contain a procedure by which it may itself be changed including how and by whom such change will be implemented.

The Family Constitution

A Strategic Plan is only a plan, after all. It must be implemented through a series of practical and often measurable steps. One such step is the creation of a Family Constitution, which formally sets the rules under which the family's governance, power sharing, communication, and problem solving systems are established. If the Strategic Plan is the broad expression of intent, the Family Constitution is the tactical expression of the agreed rules. Some Strategic Plans incorporate the provisions that would otherwise be contained in the Family Constitution, while others merely define how the Constitution will be developed, followed, reviewed, and modified. The following list will serve as an outline of the many factors a Family Constitution may address.

Family Matters

- *Statement of Values*
This section defines the family's essential core values as they pertain to the family and its members.
- *Composition of Family*
Who is a Family Member? Does it include spouses? Domestic or civil partners? Former spouses? Current spouse but one who is separated from the other? Significant others? The issue of a Family Member? A child adopted as a minor? A child adopted as an adult? Step-children?
 - Core Family
This is the nuclear family of the family member, including all those defined as family above.
 - Extended Family
This includes all the family members and the Core Families, so this will mean cousins, nieces, nephews, and other members of all the Family Groups.
- *Intra-Family Expectations, Duties and Responsibilities*
What does each family member expect from each other as it applies to their treatment of each other? What are the aspirations they hold for each other and what are the minimum standards of behavior they expect?
 - Communication
 - Responsibility
 - Accountability
 - Confidentiality



- Code of conduct
- *Extra-Family Expectations, Duties and Responsibilities*

What do the Family Members expect of each other as they apply to the outside world?

 - Responsibility
 - Code of conduct
- *Family Meetings*

How will such meetings be held, when, where, and for what purposes? Who will lead and who is expected to attend? What are the consequences for not attending? What is the behavior expected at these meetings? What will motivate members to attend and are the consequences for failing to do so? For what reasons might they be excused? Who else can attend (i.e. non-family members) and who has the authority to make these decisions? Who pays for the program? Travel? Related expenses?

 - Procedure and process
 - Participation
 - Frequency
 - Agenda
 - Location
 - Budget and expense reimbursement
- *Personal Development and Opportunities*

What is expected of each other with respect to education? What are the incentives available to motivate some to take advantage of the complete the educational opportunities? What are the consequences for failing to do so? What family resources can be made available to facilitate this process?

 - Education
 - Internship
 - Mentoring
- *Extended Family Events, Travel, and Reunions*

What opportunities are there for the Core Family and Extended Family to get together for shared experiences? Who will lead this process? What resources are there to facilitate it? What are the incentives for participating and should there be consequences for not doing so?

 - Expectations
 - Invitations



- *Extended Family Advisors*
What is the role of the Extended Family Advisor and how might that Advisor interact with the Family Groups or advisors to each of the Family Groups?
 - Selection process
 - Authority and responsibility
 - Communication
 - Accountability

- *Family History*
 - Chronology
 - Recording and reporting

Family Governance

- Statement of Values
- Governance Structure
- Participation
- Criteria
 - Selection and Replacement Process
 - Authority and Responsibility
- Decision-Making Process
- Compensation and Benefits
- Tenure
- Reporting and Communication
- Accountability

Conflict Resolution

- Statement of Values



- Process
- Alternative Procedures

Family Business Interests

- Statement of Values
- Definition
- Business Participation and Employment of Family Members
- Internships and Mentoring
- Retirement
- Compensation and Benefits
- Dividends and Distributions
- Sales, Mergers and Acquisitions
- Valuation
- Liquidity and Redemption
- Owner's Agreements
- Conflicts of Interest and Disclosure

Philanthropy

- Statement of Values
- Core Family Process and Resources
- Extended Family Process and Procedures



Estate Planning

- Statement of Values
- Personal Responsibilities
 - Ownership rights, responsibilities and expectations
 - Risk protection
 - Wealth transfer responsibilities
- Core Family Responsibilities
 - Marshalling and protection of Core Family Resources
 - Protection and support of vulnerable members of the Core Family
 - Resource allocation to maximize individual opportunities and initiatives
 - Resources for individual family member's estate plan management and administration
- Extended Family Responsibilities
 - Marshalling and protection of Extended Family Resources
 - Protection and support of vulnerable members of the Extended Family
 - Resource allocation to maximize individual opportunities and initiatives
 - Resources for individual family member's estate plan management and administration

Code of Conduct

- Statement of Values
- Intra-Family Expectations, Duties and Responsibilities (expectations of family members with each other)
 - Honesty, openness and clarity
 - Sensitivity and discretion
 - Responsibility and accountability
 - Mutual respect
- Extra-Family Duties and Responsibilities (expectations of family members with outside third parties)
 - Confidentiality of Family matters
 - Appropriate conduct and behavior
 - Honesty and integrity
 - Responsibility and accountability

Review, Assessment and Modification of Family Constitution



- Statement of Values

- Review Process
 - Frequency
 - Open communication by family members
 - Confidential communication by family members
 - Third party review

- Assessment of Benchmarks and Milestones
 - Process
 - Responsibility
 - Reporting

- Amendment Procedures
 - Process
 - Responsibility
 - Implementation

Resource Allocation and Budget

Each family must confer with their financial professionals to establish a resource allocation plan and family budget that will maximize the family’s wealth for generations to come. Much like a business would review and refine such a plan annually, so does a *Legacy Family*.

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At the First Foundation Inc., we are concerned not just with the tax and economic consequences of wealth planning, but with the impact of that planning on the lives of those for whom the wealth was intended to benefit. Our planners, investment advisors, bankers, and trust officers see the results of both effective and ineffective planning. We are pleased to offer you our insight, experience, and perspective.

To contact the authors, please call the toll free number at 866-833-1112.

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