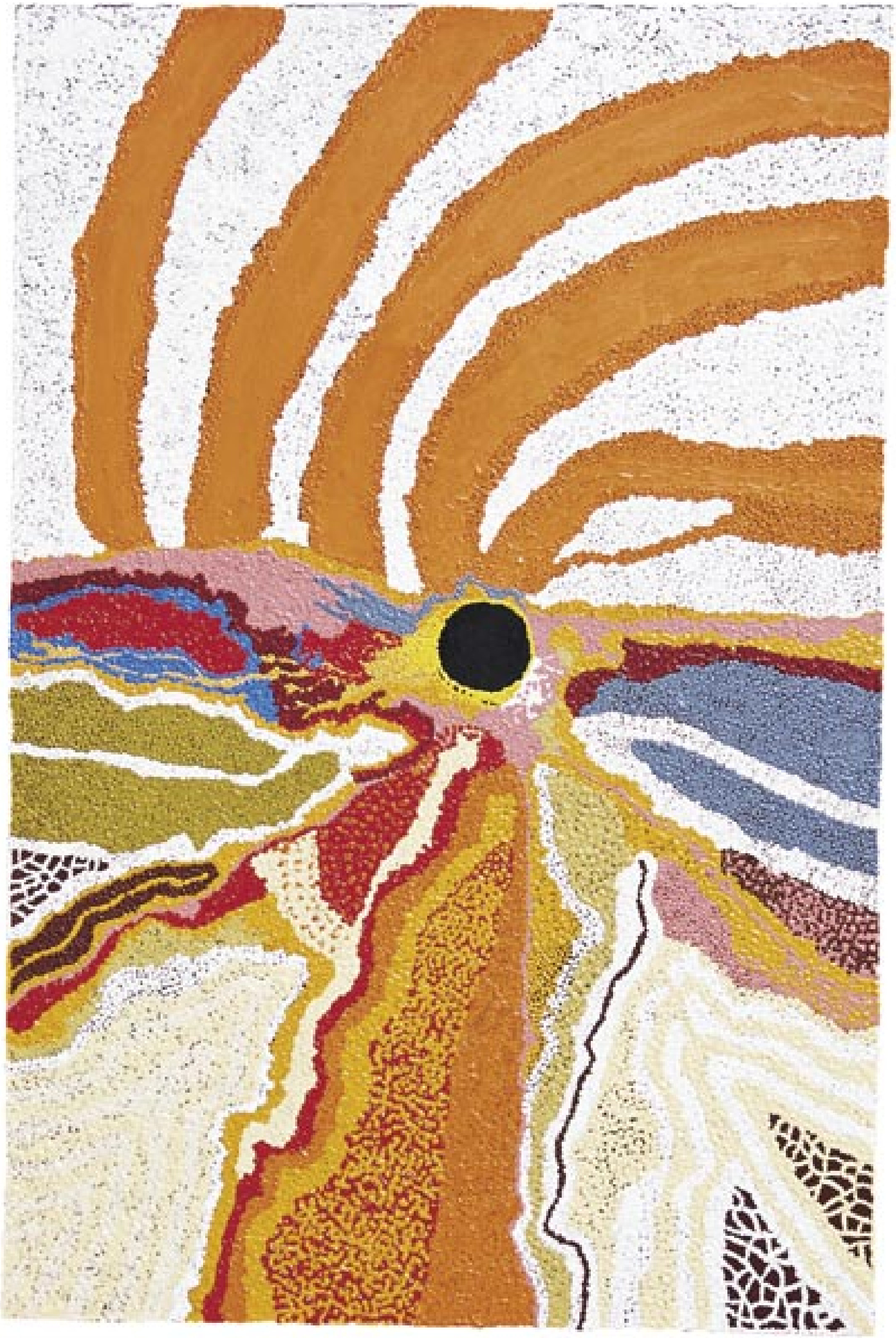
Christine Yukenbarri, *Yunyili*, 2002



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Preserving fami

Four best practices that are key to a happy family life and sound finances in the long run.

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In more than two-thirds of families that have created significant wealth, that wealth usually disappears by the third generation. This three-generation pattern—the first generation makes the money, the second spends it, the third loses it—is a cross-cultural phenomenon:

- In Mexico: "Father–merchant; son–playboy; grandson–beggar."
- In China: "From peasant shoes to peasant shoes in three generations."
- In the USA: "Shirtsleeves to shirtsleeves in three generations."
- In Germany: "The first generation creates, the second inherits, and the third destroys."
- In Italy: "From the stables to the stars and back to the stables in three generations."

What are the reasons behind this pattern? While there is no single answer, one thing is clear: all too often great effort and energy has been invested in the accumulation or expansion of wealth but far less attention is paid to the impact of wealth on family life and the family's future. We also know that the family's capacity to communicate about money matters plays a role. In most families, conversations about money are limited to the financial capital itself, rather than the impact of money on the family itself.

So what can families do to ensure the preservation of both wealth and family life? We see the challenge and opportunity as twofold: the family takes a real interest in 1) how the money is attended to so that it will be made available for the family's genuine needs and demands 2) how the family will be groomed so that they are ready for the money.

In our work with individuals, families, family businesses and family foundations we have come to appreciate the importance of families having a plan that provides a framework for enabling and enriching the family first so that the wealth lives on. Use the following guidelines to help create a family legacy that protects both the family and the wealth over the generations.

FOUR BEST PRACTICES FOR SUCCESS

1. HAVE A FAMILY MISSION THAT HAS "EMOTIONAL VALUE"

Families, like businesses, have a better chance of success when there is a clear and agreed upon mission. The mission must have what we call "emotional value"—it must touch the deeply held feelings and beliefs of family members. We have helped many families create a mission statement through a systematic process of reaching a consensus on operational values to guide spending, saving, sharing and transferring of family money. Families that take the time to have open, constructive conversations about their core money values create a "mission statement" with the right emotional ingredients to succeed. Effective family mission statements are also calls for action—family members are expected to demonstrate the ways in which they will implement the agreed upon core values and objectives.

For example, as part of their mission statement, one family agreed upon a value that created a "family connections" fund: a percentage of family money would be placed in this fund on an annual basis. This fund was used to enhance connection between family members, and support the development of next generation recipients. It was used for family retreats, and for supporting ly and finances

the educational and personal development of individual family members.

The second key to having a successful family mission is having the "buy-in" of its multi-generational constituency. While decision-making in families does not usually follow the rules of a democracy, there must be clear avenues for input into the mission from all generations. A successful family mission is one that allows the voices of the inheriting generations to be heard and have influence. A common example is seen in succession planning for a family business or family foundation. Without input from successor generations, the mission of the wealth-creators may fail. Consider this family foundation story: the John Doe family foundation had, for two generations, offered financial support for arts organisations such as museums. For more than 30 years the foundation had gained acclaim for its support of art and culture in their community. Some members of the third generation, while not against the arts, felt the mission was too narrow and "irrelevant". They wanted the family foundation to do grant-making that reflected their concerns with the environment. As one Generation 3 member said, "I can't fully appreciate a day at the museum if I can hardly breathe the air or safely drink the water of our community". Members of Generation 1 and 2 viewed these Generation 3 sentiments as being "ungrateful and unappreciative" of the true value of the family legacy. Instead of finding common ground, the family foundation became a battlefield. You can see that governance and succession planning in this foundation has the potential to become a source of discord rather than connection for the family.

Family money is often fraught with concerns about power and control. While there is no single best practice for the handling of such complex family dynamics, successful families find ways of listening to the concerns of all generations. The overall objective is for family members to have both a sense of ownership and emotional connection to their family's *raison d'être*.

2. TEACH STEWARDSHIP AND RESPONSIBILITY FOR WEALTH

Successful families appreciate the deep responsibility that comes with wealth to the individual, family and society. Guided by a clear family mission, family members are trained from an early age to see themselves as stewards of family money, to view wealth as a resource that requires care and leadership. This means imbuing family members with a value of money beyond it's financial worth. Self-interest takes a back seat to both family interest and the impact of wealth on the community and society. The use of family money is tied to a sense of purposefulness, usefulness and enterprise. The family rewards those who live by, as well as leading others to abide by, its mission and values. Of course, the benefits that come with wealth are appreciated and enjoyed, but are not held as the highest value. Families that view their financial success as a value in itself are most likely to fail to preserve their wealth.

We have also found that in successful families there is at least one strong family leader who is the key-holder of the family's concept of stewardship and responsibility to wealth. This family member (with like-minded members) provides the voice for family values, helping to guide the family towards practices of responsible wealth management. They are also those most able to gain "buy-in" from the stakeholders. In some families, leadership is developed by the use of outside professional consultants. These family facilitators coach and teach family members on how to take a position of leadership to both construct and impart a stewardship model that is in line with the family's unique culture.

Teaching responsibility towards wealth helps reduce confusion when mixing financial with emotional well-being. Each of us develops a "wealth identity" that reflects our personal values, enabling us to find our unique comfort zone with money. Elsewhere we have written about stages of wealth identity development, a process in which people move from an initial recognition of their financial accomplishments, starting with the first honeymoon stage, moving onto a fourth stage of maturation we call "Achieving Balance: Time, Stewardship, and Legacy". So a person with a fully developed wealth identity understands the meaning of being a responsible steward, and seeks a balance between time and money. This includes a balance in four domains: self, relationships, work/productivity, and engagement in the larger community.

Stewardship and wealth responsibility are fine ideas, but how can family leaders best instil the rest of the family with these important values? Those family leaders who expect members to perform responsible roles, in the world of work and community, exemplify a best practice. The challenge is to guard against over-entitlement or spoiling of wealthy offspring. It is advisable not to make life too easy for the younger generations or to give out entitlements. Over-entitlements will lead to generations that expect the money to take care of itself and them. Families are now telling us that they want future generations to know how to take care of themselves first and the money second. Family members also

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need to be exposed to a larger vision of the purpose of family wealth, other than self-interest. Education of family members is also important. This may include financial education as well as the passing on of stories about the family's history (for example, how the wealth was created), and the scientific, social and political concerns of their community/society. Families greatly benefit from hearing stories about successful stewards of wealth, such as the Rockefeller family.

3. MODEL AND TEACH CHILDREN THE VALUE OF MONEY AND FAMILY MONEY VALUES

Successful families have a clear understanding and an organised strategy for imparting the family mission, values and model of wealth responsibility to following generations. As we wrote in a previous edition of Insight, the number-one concern of wealthy families is to raise children who are productive, responsible and motivated; the number-one fear is that family wealth will spoil their children, undermining motivation and capacities.

Without a doubt, there can be no harder job than raising children with sound money values. Successful families take this job very seriously. In these families, parents work hard as supportive partners in their parenting. They have agreed upon their parenting and money values and how they will be enforced. They teach their children how to handle money and how to be responsible for money. This teaching changes with the child's developmental readiness. Parents share and give children day-to-day life experiences for handling money, from chores and allowances to encouraging participation in the world of work. Employment both within and outside of a family business is encouraged. Employment in a family business or foundation, in which family members are not treated differently than non-family employees, is a potent strategy.

Effective communication about money is also crucial. Successful families can talk openly about how they deal with the emotional

A successful family that can beat the odds of the three-generation phenomenon is a family that:

- ☐ Has a family mission with "emotional value"
- ☐ Teaches the stewardship of and responsibility for wealth
- ☐ Models and teaches children the value of money and family money values
- ☐ Creates and documents a family legacy
- ☐ Plans for and develops leadership within the family
- ☐ Encourages inclusive engagement, collaboration and input from all family members
- ☐ Encourages effective communication
- ☐ Holds family meetings


Patrick Smith, *Purkitji*, 2003

side of family money, beyond counting zeros or analysing balance sheets. For example, one family we know had a weekly kitchen table meeting in which any family member, regardless of age, could raise issues about family money. Discussions ranged from the use of allowances, to handling solicitations from friends and community.

Whether it is a weekly informal discussion or a yearly all-family member retreat, the family meeting about money matters is rapidly growing as an important strategy for success. A safe and supportive environment is created in which family members can speak freely about money matters. Fantasies, perceptions, fears and expectations about family money issues are explored and respectfully heard by all generations. All family members are encouraged to learn the skills necessary for constructive discussions about money. This does not mean that every member gets what he or she wants from these discussions, but they are assured of being heard. Their feelings and thoughts are given consideration, and they get the opportunity to influence other family members to support their position.

4. CREATE AND DOCUMENT A FAMILY LEGACY

Every family has its own story, with the desire to pass it on to future generations. Successful families turn the family story into something we call the "living legacy", a narrative process in which the important events, experiences and values of the family are recorded, remembered, celebrated and passed on. The family legacy is not something that gathers dust on a shelf. It is a living, breathing part of family life.

Not too long ago families gathered in their living rooms, or around the dining-room table, to share experiences. These stories became the oral history of a family or clan. Today we see families working hard to remember their stories, and deciding what they want to see live on, in new and exciting ways. Some families make biographical "legacy films", not unlike those used in corporations to describe themselves or introduce a new product. Successful families find ways of inviting family members of the current and succeeding generations to regularly contribute to the family legacy and what is to be remembered. Often in the form of a family holiday or retreat, family members will get to hear the multi-generational "intelligence reports" on their family.

What is most exciting is the encouragement of family philanthropy as part of creating a family legacy. Many families come together to partner meaningful, strategic philanthropic projects or a family foundation, or they pool funds to respond to a cause that reflects the family legacy. Again, the key to success is action. When family members take part in building their family's legacy, the legacy is highly valued and sustained through generations. We encourage families to create Living Legacy Documents that include ethical wills and letters of intention. We have found that the written word, shared with key family members, is a powerful motivator of family engagement in the building and maintenance of a legacy. □