GenSpring
SUNTRUST PRIVATE WEALTH

The 25 Best Practices of Multi-Generational Families

Research suggests that the odds of sustaining wealth across generations are as low as 30%*. Surprising to some, this research shows that less than 3% of these failures stem from poor estate planning and poor investment returns. This implies that there are other circumstances that have a far greater impact on the ultimate success of wealth transfer.

Through collaboration with experts over the years, internal research, and our work with some of the world's wealthiest families, we have identified 25 non-financial best practices that we believe enhance a family's ability to sustain their wealth across generations. These best practices can be summarized as in the image to the right.

Family Cohesiveness

- Family History & Culture
- Family Mission Statement
- Shared Values
- Teamwork & Communication
- Family Member Well-being

Governance

- Family Governance
- Family Meetings
- Family Policies
- Conflict Resolution
- Succession Planning

Strategic Planning

- Understanding of Economics
- Wealth Objectives
- Planning for Major Life Events

Philanthropy

- Support for Philanthropy
- Shared Philanthropy
- Strategic Philanthropy

Mentoring

- Financial Education
- Parenting Skills
- Support For Entrepreneurship
- Family Support Network
- Money Smarts

Trusts & Estates

- Communicating Intentions
- Grantor & Beneficiary Mentoring
- Selection of Trustees & Advisors
- Trustee & Beneficiary Relationships

In writing this paper, we hope to bring greater awareness and understanding of these 25 best practices, and substantiate how we determined that these activities help families sustain wealth across multiple generations. Each section of the paper highlights a subset of best practices and gives a broader explanation of their importance. As you will see, many of these best practices are interrelated and build off of one another. We encourage families to discuss and determine which best practices are more or less applicable to them, given the current situation of the family and its members. Though we do not believe that a family must implement every best practice to sustain their wealth, we do believe that most have relevance and would provide benefit at one point or another in a family's journey.

(Continued on next page)

* *Source: Preparing Heirs, Roy Williams and Vic Pressier, 2003. A wealth transfer failure is defined as "the involuntary removal of assets from the control of the beneficiary."*

It is our experience that these practices, in total, are the major differentiators of families that have successfully sustained their wealth across generations.

FAMILY COHESIVENESS

Family cohesiveness is a term that refers to a family's common bonds and desire to work and play together. It is important that family members continually build and strengthen familial bonds so that their money and legal structures are not the only things that keep them close. "The Pritzker Case is a fitting example of what happens when a family is united by its financial success alone. Believing that the riches are enough to sustain them as a family, and distracted by their dazzling financial success, they are blind to the cracks in the family until a crisis erupts" (Martel, 2006). The Pritzker Family is well known for their successful $15 billion empire, including Hyatt Hotels and Caribbean Cruise Lines. Unfortunately, the family is also notorious for family disagreements which have resulted in major law suits and the splintering of four generations of family members.

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Over the years, we have observed that family cohesiveness is strongest in families that communicate their **Family History and Culture** and pass it down through the generations. One of the most experienced and respected experts in the field of Family Wealth, James E. Hughes (2004), states that, "Families who recognize with ritual the important passages in their member's lives seem to fare better at overcoming the shirtsleeves proverb". Charles Collier, the well-regarded author of Wealth in Families, agrees and says that one of the best practices of successful families is that "they tell and retell the family's most important stories" (2002). Though we have observed this best practice pursued in a variety of ways, we have often advised families to entrust the initial responsibility for formally documenting and communicating their family's history and culture to the third generation (i.e. the "grandkids"), who often begin by "interviewing" preceding generations. This process is highly effective and the benefits can be – and often are – overwhelming.

An implication to a family's ability to preserve their history and culture is the need for good communication. Research shows that 60% of wealth transfer failures are caused by the breakdown of communication and trust within the family unit (Williams & Preisser, 2003). As in well run businesses, **Teamwork and Communication** are learned skills and key characteristics of highly functioning families. We have seen how improvements in teamwork and communication skills help resolve lingering conflict and prevent future conflict among family members. The fact is that open, honest, and healthy communication between family members creates trust, and trust prevents family conflict. We have also observed that family cohesiveness is greatly improved in families that openly and explicitly discuss their **Shared Values**. "To successfully preserve its wealth, a family must form a social compact among its members reflecting its shared values, and each successive generation must reaffirm and readopt that social compact" (Hughes, 2004). This social compact is the foundation for the development of a **Family Mission Statement**. "A family mission statement is a combined, unified expression from all family members of what your family is all about and the principles you choose to govern your family life" (Hughes, 2004). A family mission statement conveys a family's purpose and provides family members with representation in and ownership of the family's direction. In our experience, simply having family members sit down to discuss their shared values and mission results in improved family cohesiveness. Furthermore, families that not only take the time to create a values-based family mission statement but also judiciously employ it continually realize benefits throughout their interactions and in the process of making family decisions.

Finally, the emotional and physical health and happiness of each individual family member needs to be nurtured in order for the family to remain a cohesive group. To ensure **Family Member Well-being**, a priority must be to "stress each family member's individual pursuit of happiness" (Collier, 2002). As Hughes (2004) says, "the assets of a family are its individual members." It is our view and experience that families that place more importance on the family's money than on the well-being of family members will inevitably fracture.

GOVERNANCE

Family Governance, or the practice of making informed decisions as a family, becomes increasingly important as time passes. By virtue of the evolution and expansion of the family, the complexity of decisions to be made in families of affluence grows over time. Harry Martin, author of "Is Family Governance an Oxymoron?" says, "A lasting family governance plan can therefore prevent the shirtsleeves to shirtsleeves while creating family harmony. Whatever the effort, it is worth it (2001)."

The development of a family governance system begins when current family leaders start involving next generation family members in **Family Meetings**. For first generation families, these meetings often start around the kitchen table planning the next vacation. As a family's enterprise grows in size and complexity, so do the meetings. Lee Hausner (1990), a well respected family wealth expert, noted that "Family meetings play an important role in the succession process. Family meetings are the most likely forum for prolonged and in depth communication between generations." In our work with families, we have observed that when family members begin to meet regularly, they practice their interactions and communications, typically finding the need to put into place **Family Policies** to document their agreements and decisions. We advise families to start putting in place family policies before the need is overly apparent (i.e. when emotionally charged family decisions present themselves). Collier (2002), shares, "If a family wants to survive for a long time, I think it is critical that it evolve a governance structure appropriate to itself to afford an opportunity to make those decisions that need to be made jointly."

> *"Governance refers to the shared agreements, mindsets, structures and processes that bring a family together into a unified wealth creation system"*
>
> – Dennis Jaffee

Over time families compile a series of family policies that guide their decision-making, which are collectively referred to as a family constitution. To be clear, however, we did not observe nor does research show that the benefits to families stem from the mere presence of a family constitution. Instead, the best practice appears to be the disciplined practice of documenting and communicating reasonable governance agreements. The two exceptions to this are a few policies that researchers and families alike have found to be critical to sustaining and transferring wealth – a policy for **Conflict Resolution and a Succession Plan**. A conflict resolution policy, such as creating rules of conduct, established and enacted by all family members, ensures that when disagreements arise in families there is a thoughtful, previously-determined protocol in place to resolve them efficiently, fairly and with minimal disruption to the family. Similarly, we have observed a best practice in families of having an understood and agreed upon succession plan for preparing and involving next generation leaders. These two best practices, along with regular family meetings and the creation of family policies, seem to adequately manage the stresses and transition of decision-making responsibilities between generations.

Dennis Jaffe (2006), notable family business expert identified, "Governance refers to the shared agreements, mindsets, structures and processes that bring a family together into a unified wealth creation system. In essence, governance is about who controls access, distribution and management of the family wealth." We at GenSpring have learned first hand the importance of helping families put into place appropriate governance structures and practices so that their families and their wealth can be sustained over time.

MENTORING

According to Roy Williams and Vic Preisser in *Preparing Heirs*, "25% of failures were caused by inadequately prepared heirs" (2003). Mentoring heirs is an important component of preparing family members to be responsible stewards of the family's wealth. We define "mentoring" broadly as all opportunities to nurture, support, educate and collaborate with family members and their advisors so as to best develop a family's human and intellectual capital.

"Setting aside time for your children, and making that time inviolable, is one of the most effective ways to build family relationships and to instill positive values in your children"

– Roy Williams

Financial Education is one well-known mentoring best practice that instills family members with the financial competence to make good financial decisions. From reading an investment statement to understanding a mortgage, financial education is imperative. Lee Hausner, in *Children of Paradise*, indicates, "If affluent parents do not actively instill within their children a sense of value and respect for money and the effort earning it requires, the result can be a child who not only believes there is an endless supply of capital, but one who consequently abuses it" (1990). Two lesser known best practices that we have observed involve developing what we refer to as **Money Smarts** and a **Family Support Network**. We use the term "money smarts" to refer to families that have become versed in the effect that money has on family relationships. By understanding and talking about issues such as "fair treatment" between siblings and financial inequality between spouses, they are able to avoid or manage unnecessary conflict. Similarly, families that proactively learn about and address the emotional impact of wealth on family members tend to yield responsible stewards who have healthy feelings and views toward money. Roy Williams states, "Setting aside time for your children, and making that time inviolable, is one of the most effective ways to build family relationships and to instill positive values in your children. It is a high-yield investment (1997)." Supporting families to be better educated and knowledgeable about all aspects of their wealth is an important aspect of sustaining wealth across generations.

A best practice that we have observed and is well-researched is the effect that good **Parenting Skills** have on creating responsible beneficiaries. Admittedly, it is difficult to define exactly what "good parenting skills" actually means as we have observed a myriad of different approaches and their positive (and occasionally negative) impact. One definition we like comes from Jessie O'Neill, author of *The Golden Ghetto*, in which she says, "Using healthy tools of parenting – such as holding reasonable expectations, using loving, firm discipline, allowing children to experience the consequences of their behaviors, role modeling healthy boundaries in intimate relationships as well as setting them with our children – are important for all parents, rich or poor. By taking that precious time, showing your love, and having faith and confidence in your child's abilities, you have given him or her the irreplaceable gift of growth, positive self-esteem and self-love" (1997). The one common ingredient we have observed about good parenting skills is that they are consistently exhibited by parents whose goals begin with being a good role model for their children.

Lastly, we have frequently observed the benefits of letting next generation family members learn and practice entrepreneurship. Certainly, next generation entrepreneurs can be major contributors to long-term family wealth preservation and growth. But beyond financial success, we have seen family **Support for Entrepreneurship** teach important skills and behavior while increasing family cohesiveness and interaction. Joline Godfrey (2003) agrees and says that, "Exploring entrepreneurship is an excellent means of introducing the language and concepts of money into 'real life'. Balance sheets, profit and loss, budgeting- all these concepts may be understood more readily in the exciting realm of 'having my own business'." In our experience, it is the learning of entrepreneurship and the underlying skills that is the best practice regardless of whether next generation family members ever start a business.

PHILANTHROPY

The word Philanthropy is derived from the Greek words "Philos" and "Anthropos", which mean "the love of" and "humankind". In essence philanthropy is any activity or gesture done to bring about good or improve quality of life. People pursue philanthropy as a means to express or teach what they believe to be important. The three best practices that we have observed in this area are very similar – likely manifestations of the same belief in giving back – yet represent very different goals within the families that exhibit them.

First, many families provide **Support for Philanthropy** as a means to stress their belief in the importance of giving back to their communities and society. It is a best practice intended to have a personal impact on those involved. Whether family members prefer to give their knowledge, time or dollars, support for philanthropy is a way to position philanthropy as a rewarding and fulfilling practice that conveys family values to the next generation. At a minimum, wealth preserving families tend to encourage and support family member philanthropy.

Second, family or **Shared Philanthropy** has the potential to provide a safe environment to engage children and grandchildren in acquiring skills and competencies necessary to lead fulfilling lives. This best practice is intended to have a family impact, and is an excellent means to discuss stewardship, values and the responsibility that goes hand in hand with inherited wealth. This best practice is as much oriented toward building family cohesion as satisfying a societal need. Thayer Willis, family wealth counselor and author of *Navigating the Dark Side of Wealth: A Life Guide for Inheritors,* agrees that family philanthropy is seen as a wonderful opportunity to teach financial literacy. At GenSpring, we have observed that successful families use shared philanthropy as an effective parenting tool and a means to instill family values in their children. Families may also pursue shared philanthropy as a result of the family mission statement constructed by family members. Including children and grandchildren in charitable giving decisions, even with small amounts of money, seems to help them: develop an understanding of financial concepts, such as investment management, due diligence, and analytical evaluation; learn to work together, make joint decisions, and solve problems; and gain confidence through their interactions with others. We have seen shared philanthropy be used as a way of bringing families together, often creating more harmony and cohesiveness in the family and enhancing their ability to work together.

> *"I've come to believe that giving feels good, but I think giving strategically feels terrific"*
>
> – Alan Alda

Lastly, we have observed many families that become very strategic with their philanthropy – intently focused on a societal or global impact. **Strategic Philanthropy** involves conceiving of a giving plan, developing a philanthropic mission, identifying grantees and measuring the effectiveness of giving. At the extreme, this form of philanthropy becomes "venture philanthropy", effectively setting a business to pursue philanthropy. The key appears to be first discovering what you most want to affect with your giving – the desired result. Alan Alda (1995), in a speech to the Council on Foundations shared, "I think something happens to us when we give. There is a better self in us that comes to the surface, gasping for air, glad to be let out. So I've come to believe that giving feels good, but I think giving strategically feels terrific."

Former foundation trustee, Paul Ylvisaker, has been described as the heart and soul of organized philanthropy. In the book, *Conscious and Community: The Legacy of Paul Ylvisaker*, Virginia M. Esposito recounts one of Ylvisaker's most famous quotes, "The returns on a family investment in philanthropy are- or can be- extremely high, both internally and externally (1999). When such an investment is well executed, a family can achieve the cohesion that comes with a sense of higher purpose and cooperative effort. Family members report an excitement and fulfillment." We have seen this happen countless times in families that support or pursue individual, family or strategic philanthropy. Perhaps an unexpected consequence or overlap of best practices, we have also seen tremendous entrepreneurial skills developed and honed by family members in the pursuit of strategic philanthropy.

STRATEGIC PLANNING

We have helped families to define their **Wealth Objectives** and deal with the strategic issues or risks that stand in the way of accomplishing them. We consider wealth objectives to be the long term goals that guide our work with families. In our experience, there is a tremendous change that occurs in a family once they have clearly defined their wealth objectives and agreed on a strategic plan to accomplish them. In terms of their family wealth, they increasingly move from being reactive and defensive to proactive and visionary.

Ideally, a family's wealth objectives will correspond with their mission statement and should provide a means to make decisions. In 2006, Family Office Exchange published the findings of over 500 interviews with wealthy families and found nearly all wealth owners expressing, in their own words, similar wealth objectives which can be grouped as follows: "ownership and control", "financial security and continuity", "family continuity and governance", and "wealth preservation and enhancement". A family's objectives should be conveyed in their mission statement. Williams and Preisser state that the expression of the family's objectives through a written mission statement will "enable professional advisors to respond promptly in advising courses of action as new legislation and rules emerge. It goes beyond the preservation, governance, and taxation issues to define the purpose of the wealth, not just its retention" (2003).

To prepare for the many strategic issues that can divert a family from accomplishing their wealth objectives, it is crucial for families to have a clear **Understanding of Economics**. Having the education and knowledge about the impact of inflation, taxes, budgeting and investment performance is a basic necessity for families of wealth to succeed. In our experience, it is particularly important that next generation family members are educated about these concepts. Experts maintain that by not communicating about money or mentoring the next generation, the resulting confusion leads to either rampant spending without regard for the wealth or a reluctance that causes the heirs to fear even acknowledging the money – what we refer to as "financial paralysis".

Change is inevitable and unforeseen events are a reality of life. **Being Prepared for Major Life Events** is extremely important for families and provides them the opportunity to anticipate and plan for future events so they have the most flexibility and options. Major life events can include such things as birth, death, divorce, marriage, illness, sale of a business, etc. To be prepared for these and other life events, which may also represent wealth transitions, it is recommended that families implement other best practices such as succession planning and communicating intentions, which are discussed in this paper. Roy Williams emphasizes the importance of discussing and planning for the unforeseen by saying, "If these candid give-and-take discussions are avoided, succession can become a crisis, especially when precipitated by the unexpected death of an entrepreneur (1997)." But do families know if they are indeed prepared? The ones we have observed actually practice it. They prospectively walk through or "fire drill" future life events and/or wealth transitions to determine whether they are indeed prepared. This practice uncovers the previously unforeseen issues that may have placed a family and its wealth in jeopardy while there is still time to take preventive actions.

"Generally, when parents inform their children about the estate plan, the children feel more respected"

– Lee Hausner

We recognize that in order to help families manage the strategic issues, risks and life events that occur there must be clarity around the family's values and wealth objectives. A recent Family Office Exchange study findings are in agreement: "Today's wealth owners and office executives alike must ensure that decisions are made with the complete understanding of what the family values, what the family has at risk, and how those risks can be managed (2006)."

TRUSTS AND ESTATES

Planning for and administering trusts and estates is a critical element of successful wealth transfer. The common question "If you are not sure where you are going, how will you know when you get there?" is certainly very applicable. We know, as most do, that estate planning for family wealth must align with and be an extension of a family's wealth objectives and strategic plan. However, we did not observe that the act of estate planning itself was a key ingredient to sustaining wealth. Instead, there seems to be only a few differentiating best practices that are critical. **Communicating Intentions** for wealth transfer is a well-researched best practice as it ensures that heirs are aware, informed, and prepared. Lee Hausner agrees and states, "Generally, when parents inform their children about the estate plan, the children feel more respected. Lack of information can lead to misunderstanding about intentions and values (1990)." This is one of the most effective yet most difficult best practices for families. Typically, parents have very real fears about communicating intentions, including demotivating or spoiling their children, the consequences of unequal inheritances, and loss of control in making desired changes. Yet, in our experience, communicating intentions rarely leads to anything other than better communication, more trust, clear expectations, and far better prepared heirs.

In addition to communicating intentions with heirs, **Mentoring Beneficiaries and Grantors** on the impact of inheritance is a best practice that helps establish mutual understanding. Mentoring beneficiaries to be prepared for inheritance is a process that involves educating about wealth as a part of everyday life. James Hughes (2004) and Lee Hausner (1990) both concur that it is important to set expectations, establish roles and responsibilities, and clarify intentions so as to mitigate unnecessary conflict between beneficiaries and grantors. Beneficiaries and grantors both have unique needs and perspectives and, thus, it is critical that there be a shared understanding of each other's needs and concerns. Williams and Pressier have created a checklist to mentor beneficiaries and grantors on what each needs to do in order to prepare for wealth transfer. The beneficiary's checklist includes such things as involvement in crafting the family's long-term mission statement and developing a strategy for accomplishing it. They also point out the importance of fulfilling the standards placed on heirs related to education and experience to ensure competency for the roles they will play in the management of the family's wealth. The grantor's checklist closely models that of the beneficiary's list with the main difference being that it is the grantor's responsibility to ensure that the heir is set up for success. This includes inviting the heir to participate in writing the family mission and strategy for accomplishing it as well as defining the education and experience that should be expected of a beneficiary (2003).

"Today's wealth owners and office executives alike must ensure that decisions are made with the complete understanding of what the family values, what the family has at risk, and how those risks can be managed"

- Family Office Exchange

Equally important to building a mutual understanding between beneficiaries and grantors is having clear expectations and understanding of the roles between **Beneficiary and Trustee**. Hughes (2004) states, "A goal far more important to successful family governance is that the relationship between the beneficiary and the trustee be so smooth that each sees himself as an equal member of a team working for a common goal of long-term family wealth preservation". It is crucial that the trustee understands who the beneficiary is and what is important to him or her. The relationship will be strengthened if the trustee takes an active role in educating, mentoring, and updating the beneficiary on the details of the trust and the impact to the beneficiary. Likewise, the beneficiary needs to learn about the components of the trustee's role in administering, investing, and distributing the trust as well as the legal constraints under which the trustee is operating. It is also important for a beneficiary to be open to gaining an understanding of financial literacy and basic fiduciary accounting. Hughes further comments that "when a beneficiary and a trustee fully appreciate each other's roles and responsibilities in the governance of the trust, their understanding advances the family's long-term wealth preservation plan (2004)".

To ensure the family's assets will be governed and distributed consistent with the family's values and beliefs, there should be careful attention paid to the **Selection of Trustees and Advisors**. Hughes suggests to "Seek people who describe themselves as 'called' to this work. Look for people who are greatly interested in other people, are curious about you, and who are creative in areas beyond their professional lives. Ultimately, look to seek advisors with 'grasshopper minds', the ability to work on fifteen to twenty different problems every day, jumping from one to another like a grasshopper (2004)."

CLOSING

As this paper outlines, these 25 best practices are simply that – best practices identified by families, consultants and advisors who have seen the positive impact of these activities. It is our experience that families that employ these best practices, starting with clearly defined wealth objectives and a strategic plan, have a higher likelihood of sustaining family wealth across multiple generations. They experience more cohesiveness and make better decisions. They have healthier relationships. Recognize that, in reality, these best practices do not exist in isolation nor get implemented over night: one affects another, and it takes time. Yet, we believe that families who devote their effort to the successful adoption of these best practices will be better able to navigate many of the challenges that have historically befallen wealthy families and led to the universally-recognized shirtsleeves to shirtsleeves paradox.

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