Foreword by Jay Hughes

Author of *Family Wealth—Keeping It in the Family*

The Legacy Family

The Definitive Guide to Creating a Successful Multigenerational Family

Lee Hausner and Douglas K. Freeman

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THE LEGACY FAMILY

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FOREWORD

The Legacy Family—*A Family for the Generations*

During the past thirty years, a new multidisciplinary field has emerged to serve families whose "business is the family" and its long-term flourishing. Prior to this time the few families who had sold their enterprises and become financial families had very few advisors committed to their sets of transition issues. Perhaps it was natural that a family with a business enterprise could attract many professionals to serve it, since business management and branches of the law and accounting are areas of academic graduate specialty. Unfortunately, for families who had sold their enterprises there were then and are now no academic graduate programs devoted to their issues exclusively. Even more unfortunate for them is that frequently their most trusted advisors found it and continue to find it financially advantageous to stay with the business and serve its new owners. The families who sell their businesses suffer a double trap:

- the loss of their gifted counselors and their experience of how their families' system works; and
- often no continuing trusted advisors to pick up the families' journey, now as a financial family, who have any real experience of serving families whose business is their family and the goal its long-term flourishing.

As this new professional field of serving the issues of the "business of the family" developed, a small band of professionals began to study how to practice in this field. Very quickly it became clear that no one academic or professional specialty could meet the multiple qualitative issues these families presented. No such family fit into an attorney's practice since most of its questions were those of intra- and interpersonal communication and governance. There were no forms that fit these cases as they were all about function. In fact, many practitioners found that they had to relearn that form follows function if they were not to do harm. These are systems issues for which a quantitative law practice offers no preparation for developing the critical capitals of such families their human, intellectual, and social capitals. Similarly, those most gifted in the psychological, cultural anthropological, sociological, and organizational dynamics specialties often had no quantitative experience to bring to bear on the financial capital and its system of dynamic preservation of financial assets. Essentially each discipline had something to offer, but no one discipline offered all the wisdom and skills the business of a family required.

Enter Freeman and Hausner. Doug Freeman is an attorney who has practiced extensively with financial families and their philanthropies. Lee Hausner is a PhD psychologist whose two books *Children of Paradise* and *Hats Off to You*, coauthored with Ernest Doud, are required reading for all practitioners in this field. Both have long years of counseling experience, counseling some of the financially wealthiest dynastic families in the world. Their partnership now conjoins their multidisciplinary experiences to enlighten *Legacy Families* on how to see 100 years ahead and to imagine how to be flourishing families when they get there.

Freeman and Hausner, as they craft their chapters on the critical issues for these families and the skills they will need to develop for their successful resolution, show us why the family systems, communications, and governance issues that a "Legacy Family" presents cannot be remedied by one single discipline. They evolve our understanding, through examples, of the reality that the most important issues such families face are qualitative—issues of human intellectual and social development—not quantitative. They seek to help such families appreciate that the successful 100-year stories they are beginning will be ones that document the transitions that each generation of the family will help gently nurture to assure that each family member successfully fulfills the work of each stage of his or her life. They help us appreciate why each member's dream is precious and creative. They teach the age-old truth that a family's long-term happiness, thus its flourishing, lies in its capacity to adapt, its capacity to be resilient, and its capacity to successfully integrate many new members into its communications and governance systems. Only if it can do these well can it organically evolve to the state of family grace called "flourishing."

Each of Freeman's and Hausner's chapters poses one of the issues a family seeking to become a "*Legacy Family*" must comprehend and then offers the practices from many different disciplines that have proven helpful to its resolution. Such great practitioners as Freeman and Hausner never undervalue us as readers by downplaying the complexity of this work and especially of the perseverance needed for its accomplishment. They remind us that in the universal cultural proverb "shirtsleeves to shirtsleeves in three generations" lies the entropic reality of most families' failed efforts. They ask families seeking to be "*Legacy Families*," to be families who flourish, to accept that the work of growing such a family is extremely hard work with results that take 100 years to achieve. I hope that the great gifts of their professional lifetimes, which they share here so freely and abundantly, will help your family become a "*Legacy Family*."

Often those of us who have given our lives to the service of families and to the belief that families can flourish are guided by the wise words of the Iroquois elder when he or she convenes the tribe to make its most important decisions those about its continued life: "Let us hope that our members, seven generations from now, will honor the care, diligence, and wisdom we will bring to our decision making today, as we honor those seven generations ago who made it possible for us to be here today."

It is seventh-generation thinking that keeps a tribe, The Iroquois, which is always and only an extended family as Hiawatha taught, alive and flourishing for now nearly 500 years. May your family be graced to do seventh-generation thinking and to flourish.

Thanks Doug and Lee for your legacy of service and now for the gift of what you have learned.

A very deep bow!!!

JAMES {JAY} E. HUGHES, JR.

ACKNOWLEDGMENT

One cannot prepare a book of this nature without acknowledging the contribution of so many people whose wisdom, insight, and values helped to shape our perceptions and, indeed, our experiences. This book is dedicated to Lynn, my loving spouse, whose 42 years with me have provided the bedrock upon which I have built my life; to Darren and Brett, my incredibly talented children, who have blessed me with their own success and with such joy at their strength of character and compassion; and to my grandchildren for whom I hope the lessons taught here will benefit. Lest anyone doubt it, none of this would have been possible without my parents, Elaine and Jack, who instilled in me all that I am and hope to become, and to my fantastic brothers, who kept my feet on the ground and my eyes focused ahead. And to my partner, Lee, I thank you for the years of collaboration and inspiration. Writing this book with you was the capstone of my most interesting career.

Douglas K. Freeman
July 2009

This book represents a culmination of the work that I have been privileged to do with so many wonderful families as well as the intellectual stimulation I have been so fortunate to have received from my many colleagues in this field, particularly my partner in this exciting endeavor, Doug. Freeman. I recognize how blessed I have been to have received the love, wisdom, and guidance from my parents Ernestine and Leon that has provided the core values upon which I have always operated. I am very .grateful for the loving support that I have always received from my husband, Murray and my two children, Bryan and Carrie. They have been the experimental laboratory for many of my ideas and it is with great pride that I have watched them achieve their own personal success and have chosen the type of partners in Stacie and Matt who now contribute to the growth of our legacy family with the addition of my grandchildren Cayla, Zach, Ava, Haley, and Eli.

It is my hope that this book will give you the support and guidance to be able to experience the fulfillment and joy that comes from creating your own legacy family.

Lee Hausner
July 2009

PROLOGUE

Much has been written about the failures in families. The tabloids are full of stories of celebrities whose dysfunctional lives or the chaos of their families provides comic relief for others. Although it may be true that we learn from failure, ours or those of others, it's far more productive to study the lives of the successful. None of us raise our children with the goal of creating heartache, stress, or failure. We all want them to be successful and happy.

How do financially successful families perpetuate their success three or four generations past the wealth creator? How is it that some families remain productive, contributive, and connected long after the initial wealth creator has passed away, whereas others descend into intra-family litigation, financial abyss, criminal convictions, or alcohol and substance abuse? Why do some families build on the success of prior generations while others fall victim to the "shirtsleeve to shirtsleeve in three generations" cliché?

Over more than three decades, we have studied financially successful families, learning from those that have succeeded, as well as those that have failed. We call the multigenerational successful families *Legacy Families.* One outstanding characteristic of these families is that they understand that the true wealth of the family is not reflected in a numerical balance sheet. This understanding becomes particularly pertinent in a time of financial turmoil when, in fact, the actual financial balance sheet has significantly decreased. However distressing, this scenario provides greater impetus to concentrate on building human, intellectual, and social capital while increasing financial competency in order to preserve what remains of financial capital.

We hope, through the models we present and with the help of our observations and reflections, your family may become one of those *Legacy Families.*

A few overriding observations to you as you begin this quest:

- Every family, regardless of financial condition, has the ability to be a *Legacy Family.*
- Your chances of succeeding are directly proportional to your planning, preparation, and faithful execution.

- You will not be remembered for the size of your balance sheet, but for the value of your life and the legacy you leave for others.
- We have been privileged to know many great families, some of who are described in this book. If we enlighten you on your potential, your gratitude is owed to those families that have inspired us and so many others. To each of our wonderful family clients, we profoundly thank you.

INTRODUCTION

The Legacy Family

In the five generations since the death of John D. Rockefeller in 1937, the Rockefellers have produced business leaders and bankers, industrialists and oil barons, senators and governors, a vice president, educators, artists, writers, and, of course, philanthropists. It is a family known not only for its inherited wealth but also for its creation of new wealth. It's estimated that nearly 40 nonprofits, including public and private foundations, were started with the resources and leadership of the Rockefellers, from the University of Chicago to the Rockefeller University, and from the Rockefeller Foundation to the Rockefeller Family Fund. The Rockefeller philanthropy has extended from fostering health worldwide to the preservation and collection of the world's greatest art, and from preserving our historical treasures, such as Williamsburg, to our natural resources and national parks. Today, there are over 150 living blood relatives of John D. Rockefeller. If there is such a phenomenon as a Legacy Family, the Rockefellers would certainly be one.

Successful families, like everyone else, hope that each of today's members of the family and all those generations to follow will be successful, healthy, and content.

Some families have been able to perpetuate their success for many generations. Their progeny become new titans in business or assume leadership in public service, nonprofit 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's a name for these special families. We call them *Legacy Families*. In these families, members recognize the importance of contributions to the financial, human, intellectual, and social capital of their family and community. They are connected to their heritage, maintain positive family relations, communicate effectively, and promote generational governance structures that assure the success of those to follow.

What is it that characterizes a *Legacy Family*? Is it power? Fame? Fortune? Good works? While every family is different, we have been in a unique position to study hundreds of such families and have identified four core characteristics of a *Legacy Family.* These families demonstrate:

- *Capacity.* Members of a *Legacy Family* contribute regularly to the financial, human, intellectual, and social capital of their family and community.
- *Connection.* Members of a *Legacy Family* are connected to their ancestors and their extended families and are concerned about their descendants. They work hard to maintain positive family relations, effective communication, and effective generational governance structures.
- *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.

These qualities do not occur by accident or mandate. They are the consequence of thought and effort by each generation, a reflection of a strategic decision by the early wealth creators that the members of this family will do more than live off the earnings or achievements of others.

These *Legacy Families* are all in the "business of the family." In other words, they apply best business practices, to the "business of the family." These include family meetings, a Family "Constitution," mission statements, assessment, checks and balances, and a host of other valuable tools that we will explore throughout this book.

Meet a *Legacy Family*

Let us tell you a story of one real *Legacy Family.* It won't be your story. It's not for replication. They didn't start out perfectly and not everyone in the family is perfect. But at an early point in the multigenerational lifespan of this *Family,* which we'll call the Anderson Family, the leadership "got it." They figured out that if they didn't get organized, all that had been built since the initial wealth creator, our "Generation One Wealth Founder," began the path to financial prosperity would be lost. It would be the traditional "shirtsleeves to shirtsleeves in three generations" and the only stories that would have been told were likely to be about the business failures, intra-family lawsuits, and personal tragedies. The names and some of the underlying facts of our *Legacy Family* have been changed for obvious reasons. But the story is one that will give you a glimpse of the threats and opportunities, risks and rewards, ahead.

The story begins with Homer Anderson. Born in 1867 in the town of Springfield, Kentucky, Homer was not the picture of a future baron. His father was an itinerant farmer; his mother a part-time seamstress. At 18, Homer left home and moved, on his own, to Oregon. He worked on a small farm in the Willamette Valley. At 20, the owner of the farm died and his widow willingly sold it to Homer for $100. In 1892, Homer met and married Louisa Parks. The Andersons had three children. Homer was a good farmer and he saw opportunity in the rich Oregon land. He began to buy other parcels and he began to envision a family that would stay together, work together, and protect each other. He loved to preach to his young children "always remember to put family first." He was a good church-going man, but his success both financially and personally was based on his focus, hard work, consistency, and his sense of family.

Homer's oldest child, Horace, took over management of the farm upon Homer's death. He quickly modernized and improved its production. Horace's sister, Grace, was uninterested in the farm, but her husband eagerly joined the business. It was his vision to expand beyond farming, so he convinced Horace to use the family resources to buy timberland and boats to help transport the timber down the river. The youngest sibling, Victoria, wanted nothing to do with business. She became a school teacher and moved to Portland. Generation Two (G2) was on its way. Business was good. It had successfully survived the succession of leadership and expanded to take advantage of related, but independent, business lines.

The real challenge came in Generation Three (G3). These were the children of Horace and his sister Grace. Victoria never married and never had children, though she was, from all the stories, the wonderful aunt who could tell stories by the hour of Grandpa Homer and Grandma Louisa. Those stories linger today, magnified no doubt with a bit of exaggerated (or even fabricated) drama and humor to keep the younger generations amused. Victoria would enjoy knowing that today's generation has as many stories of her as they have of Homer and Louisa.

Horace had three children. Joshua took over the timber production and expanded into coal and natural gas. Carl ran the farms and shipping. Francis, the daughter of Horace and his second wife, Pauline, became a physician. She was the most respected of her siblings because she had taken her education beyond anything others in their family had ever done. Her husband left his own business in retail and joined the family in the real estate division as a salesman. Grace's son, Peter, had taken some of the underperforming farms and aggressively expanded the company into commercial real estate development. Within ten years of G3's ascension to power, the family company had reorganized under four divisions—farming; shipping; natural resources, and real estate development. Business was good. The family had weathered a divorce and remarriage. But the problems were just beginning.

How was this conglomerate to be governed? How were resources to be allocated? What was the rule about family members who wanted to join the company, but had no experience or demonstrated skill? Cracks in the relationships began to appear. Family meetings became triggers for family fights. The family formed a foundation, which was intended to provide a platform to work together in a noncompetitive environment, but the rivalries and dissensions were merely carried over to the foundation governance and grant making. At one point, Grace's wing of the family, represented by Peter and his family, demanded that the company be split up and the control of each division be allocated amongst the four leaders of G3.

It was at this critical juncture that the family realized it was now or never to build a generational Strategic Plan. Much of what we will talk about in this book reflects the tools utilized by the Andersons' extended family.

Today, G4 is running the businesses and governing the foundation. The seven bloodline members of this Generation, who are the great grandchildren of the original wealth creators, Homer and Louisa, are living with and working through the Anderson Family Strategic Plan. They function under a set of rules agreed to by G3 and G4 and are governed by a Family Council, consisting of a representative from each of four branches.

Some of the G4 members are in one or more divisions of the company. Some are more engaged in the foundation. Still others are shareholders but not employees or managers of the family company. Instead, they have their own personal businesses and professions. All have some role in the foundation. Most are involved in family-generated deals and partnerships outside the business. Some family members are investors in the companies started by other family members.

Generation Five (G5) is starting their climb. The oldest is 31 and the youngest is 10. No doubt, the real test of the Strategic Plan will be whether it gives the same freedom and opportunity, voice and input, to G5 as it has for G3 and G4.

Throughout the 120 years of this family's wealth creation, family controlled businesses, and extended family philanthropy, there were all the expected challenges—divorce, life-terminating illnesses, wartime deaths, uneven scholastic performance, personal conflicts and rivalries, personal financial crises and bankruptcy scares, learning disabilities, and substance abuse. Their unity was sustained through their organizational structure that implemented the vision passed down from Generation One family first. From this simple concept they developed a plan that enabled diversity to flourish, talent to rise, voices to be heard, and conflicts to be resolved.

A 100-Year Plan

As the Anderson Family learned early, the Strategic Plan is not a short-term, quick-fix family plan, but one intended to span generations; a business plan to last a time frame of which any family could be proud. We like to think of it as a 100-year arc, long enough away to be out of reach of today's senior generation, but within sight of the youngest generation.

The Strategic Plan is based on values, not on wealth. The challenge is not easier because of the wealth. In fact, it often becomes more difficult. The wealth of the family often gives its members the financial resources to permanently distance themselves from each other. Unless connected by shared assets, such as a family business, family members that don't like each other have little reason or motivation to stay connected. Warring factions and wings of an extended family are well known and often publicized. It's unlikely that Sumner Redstone, the mogul chairman of Viacom and CBS, and owner of Paramount Pictures and DreamWorks, spends long relaxing weekends with his children these days. Their lawyers might not permit it.

A Family Constitution

For the Andersons, the solution began with regular, structured, and facilitated family meetings. The family had to learn to listen, respect boundaries by not interrupting or being insultingly dismissive, hear divergent opinions without taking it personally, and develop a model of conflict resolution which can be used to the satisfaction of all members of the ownership team.

A very common step used by many *Legacy Families* is the creation of a Family Constitution, which formally sets the rules for the family's governance, power sharing, communication, and problem solving. Just as every corporation has its set of bylaws, *Legacy Families* have their Constitutions.

A Family Constitution can set rules on how many years of work experience in nonfamily businesses is required before being allowed to work in the family business; how compensation and benefits will be determined for family members in the business; how profits will be distributed to family members in the business; how profits will be distributed to family shareholders; and how family members who choose to exit the business may do so without creating financial problems for the business.

In Chapter Two, we'll explore in greater detail how a Family Constitution is constructed and operated.

Financial and Life Skill Training

Legacy Families recognize that the best wealth transfer plan will fail if left to incompetent, indifferent, and ungrateful heirs. Clearly all adults, but especially young adults, need to acquire financial competence, which includes how to build, manage, preserve, and transfer wealth. Competent adults must also demonstrate critical life skills, including listening, leadership, team building, negotiating and conflict resolution. *Legacy Families* set out the expectations and requirements that family members must meet to work within the family businesses, receive funding for their individual enterprises, or access the vast network of relationships that open doors and leverage opportunities.

We talked about this issue with one very wealthy elderly couple, who readily acknowledged that their children, now in their mid-50s, depended even today on financial bailouts from their parents. The children compete and often fight amongst themselves. But this couple had hopes that their grandchildren, all of whom were then in their early 20s to early 30s, could learn the financial and life skills that were so useful to them as the wealth creators. This underscores an important principle. The road to a *Legacy Family* is neither straight nor smooth. There will be gaps and breakdowns within and between generations, but, with enough determination by family members and consistency through the years, these bumps in the road can be overcome.

Meeting some resistance from their parents, the grandchildren learned the critical skills required to become independent, self-sufficient, and productive, and, just as important, have learned to like each other, notwithstanding the tensions in their parents' generation.

Family Philanthropy

One of the most common public indicators of a *Legacy Family* is the expression of generosity and philanthropy. It's not just the message of the initial wealth creator. Each generation has its own philanthropic initiative, whether through new foundations or structured initiatives.

One need only look to the Rockefeller family to understand the importance of philanthropy to a *Legacy Family.* Today there are nearly 40 separate foundations, donor-advised funds, and philanthropic organizations founded by the five generations of Rockefellers, starting with John D. Rockefeller in 1890.

From this founder of the classic *Legacy Family* we move to you and your family. Where are you right now in your quest for a *Legacy Family*? Remember, this has nothing to do with your financial statements or net worth. Our definition of success does not focus on spread sheets and ledgers but on families and generations.

In other words, does your family have the tools and determination it needs to remain productive, contributive, and connected for the next 100 years?

The Four Capitals of the *Legacy Family*

We understand the challenges, responsibility and opportunities of raising strong families, dealing appropriately with financial success, passing important values down to children and grandchildren, responding to differences in talents and attitudes within and between generations and contending with social pressures and the expectations of others. However, most individuals will judge wealth by a number on the financial statement.

A *Legacy Family* realizes that if you regard wealth in terms of numbers only, you will be doomed to failure as you will not have directed sufficient energy into building the three other critical capital accounts, those of Intellectual Capital, Human Capital, and Social Capital (this is where the philanthropy piece fits in).

It is the combination of the four capital accounts—Human, Intellectual, Financial, and Social—that determines the true wealth of the family, and when we plan wealth transfer strategies, we need to keep in mind how we create structures to transfer all the capital accounts (thus again the use of a family foundation).

When we speak about Human Capital, we're talking about the following:

- Effective parenting and grand parenting
- Communication
- Consensus building
- Team building
- Conflict resolution
- Leadership training
- Values, morals, ethics
- Spirituality, and
- Goal Setting.

When we work to increase the Intellectual Capital accounts we are focused on:

- Education
- Career choices
- Coaching and mentoring
- Governance
- Rights and roles of trustees and beneficiaries.

When we work to increase the Financial Capital account, we are concerned about:

- Creating wealth
- Managing/investing wealth
- Effective transfer strategies
- Financial parenting (preparing the next generation to be responsible stewards of wealth)
- Family business issues, and
- Understanding the psychology of money.

When we seek to add to the Social Capital, we are working on

- All the philanthropic activities of the family, from check writing to family foundations and donor advised funds, and volunteer time to full-time public service.

Like any successful business, there is more than one active account; *The Legacy Family* addresses all four of these critical accounts in useful ways that are real and actionable in daily life. So what are you waiting for?

The guide to the next 100 years starts on the very next page...

* * *

"Every family has a story. Only a few have a legacy."

~Carrie L. Huntley

CHAPTER ONE

Roadmap to a Legacy Family

While sitting at his office desk, surrounded by pithy statements like "By failing to prepare, you are preparing to fail"—Benjamin Franklin, Jack seemed unusually perplexed. "I run a $150 million dollar a year business with 350 employees and worldwide sales. Why can't I jumpstart my own kids?" Jack's three young adult children were educated, grew up in a loving home with solid parents, seemed to like each other, and had all the opportunities that money could buy. But none of the children were working at a steady job. Only one of the three children, now 32, had moved out of the home. One child, then 27, was doing part-time work at Jack's company, but only because he was told to work or get out of the house. The youngest child, who had just turned 25, was in the fifth year of college, which had been interrupted by 18 months of living abroad during a period of "soul searching" and "personal discovery."

Jack was one of the entrepreneurs in business who read Peter Drucker's books every night before going to sleep. He prided himself on being a strategic planner. Everyone in his business, even at the lowest ranks, participated in building the great plan for the company. And it worked. The business was very profitable and Jack had turned down a cash offer of several hundred million dollars. But, when it came to his family, it never occurred to him that you needed to plan for anything more than your vacation or your kid's college choice.

Like Jack, if you were going to build a great and enduring business, you'd start with a plan that would define your company's mission, a statement of its core values, a focus on what you would like to accomplish, and a strategy to accomplish your goals.

You'd strive to understand the economic implications, and you'd assess the skills and talents you and others have now and will need in the future to be successful. You'd create a process to communicate with your team, benchmarks to measure your progress, and a system to review, evaluate, and adjust the plan as needed.