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COVER STORY

POINT OF REFERENCE

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DRAFTING A MISSION STATEMENT CAN HELP A WEALTHY FAMILY ARTICULATE ITS CORE VALUES AND LAUNCH A DISCUSSION ON THE ALL-IMPORTANT TOPICS OF INHERITANCE AND BUSINESS SUCCESSION

For some time now, mission statements have been all the rage among forward-looking companies that wanted to clarify what they were about and rally the troops to their essential purpose. Now mission statements are being embraced in a wholly unexpected quarter—by families, often at the behest of their financial advisers, who report that such statements can be a powerful tool for all parties involved.

THE NOTION OF A FAMILY ARTICULATING SOME SORT OF mission for itself seems incongruous at first. After all, one assumes that the mission of every family is "to enhance each member's personal journey toward happiness," says James Hughes Jr., an adviser with his own practice in Aspen, Colo. Yet Hughes is a leading advocate of family mission statements and has helped many families develop them. Affluent families need a mission statement for the same reason they need financial advisers, he explains: because they have a lot of money. A mission statement can help them address a host of questions about the impact of the money on the family as well as on the larger world.

Often the impetus for developing a mission statement is a crisis, such as the death of the family patriarch. And now that a growing number of states are abolishing rules against perpetuities, a carefully structured dynasty trust can last indefinitely, making mission statements that much more important to ensure that the originator's values are carried forward.

Advisers say that drafting a mission statement can help families figure out their core values, achieve something like consensus on the purposes of their wealth, and even face some hard truths they may have been avoiding. At the very least, developing a mission statement can force families to begin a dialogue around such difficult issues as inheritance or succession in a family business. Ideally, at the end of the process, everyone comes out knowing everyone else a little better.

For the adviser, a well-crafted mission statement that arises from family consensus offers a clear-cut basis for providing the kind of services the family needs—as well as a benchmark against which those services can be measured. Performance becomes easy to evaluate simply by posing the question, Has the adviser worked to further the agreed-upon mission?

What should a family mission statement look like? At a minimum it should be a written codification of the family's values, heritage, and goals. But the more detailed it is, the better it will work to head off differences down the road. Thus the mission statement should also cover the family's investment policy, establish guidelines for charitable activity, set up a system of family governance, and deal with the stewardship of such cherished assets as a family house or an important tract of land.

Different advisers have different conceptions of how to get all this down on paper. Some prefer an extremely short mission statement—perhaps no more than a single paragraph—backed by a plan of action. Hughes, for example, advocates a one- or two-sentence "vision statement" supported by a much more detailed mission statement that says specifically how the family intends to realize its vision. "You first need a vision of where you're going," Hughes says. "If you don't know where you're going, you'll surely won't get anywhere."

Bruce Bickel, senior vice president at PNC Advisors in Pittsburgh, also likes brief mission statements and has a straightforward approach to developing them. He asks clients two key questions: What legacy do you want to leave? What are the values you want to pass on?

Scott Fithian, president of the Legacy Cos. in Quincy, Mass., is at the other end of the spectrum. He encourages families to develop a detailed family mission statement, or what he calls a family financial philosophy. Fithian, the author of *Values-Based Estate Planning: A Step-by-Step Approach to Wealth Transfer for Professional Advisors* (John Wiley), estimates that he personally has guided clients through this process 75 or 80 times. Legacy also teaches other financial advisers how to develop similar documents.

Fithian's clients are typically the creators of the family wealth. His mission statements contain 10 sections, including source of wealth, responsibilities and obligations, and financial philosophy. Among the questions addressed are, to whom or what does the client feel a responsibility or obligation with respect to the distribution of wealth, and what is the appropriate inheritance for heirs? (See "Family Philosophy 101," last page.)

To develop this document, Fithian tapes four to five hours of intensive interviews with clients, exploring how they perceive themselves and their family, how they made their money, and what they value. Whenever he detects a high level of emotional involvement surrounding an issue, he asks the client to elaborate. Creating the right environment and being receptive can lead to some remarkable disclosures: one man, for instance, said calmly in the presence of his wife that he had an illegitimate child. "We deal with a lot of emotionally charged information," Fithian says.

BESIDES THE INTERVIEWS, HE ALSO ASKS clients to complete a questionnaire that poses 39 challenging queries designed to force the respondents to clarify their values and priorities. If the clients are a couple, he asks them to complete the questionnaire individually to get a read on where their values might diverge. A sample question: "If you were given $1 million and were required to give it to charity this year, what charitable cause(s) or organization(s) would you support?"

Fithian's rigorous approach sidesteps one of the biggest pitfalls in the process—that is, developing a statement that is so grandiose or innocuous it serves no useful purpose. "Insipid statements are a big problem," says Jeff Scroggin, a tax attorney at Scroggin & Associates in Roswell, Ga. Scroggin, whose clients are often the owners of a family business, says he prefers a concrete statement dealing with such questions as, Are family members entitled to income from a business if they don't work in it?

Of course these kinds of detailed statements often require updating as time passes or circumstances change. Scroggin cites the example of one family that decades ago adopted a policy barring in-laws from running the family business. The problem was, as time passed, the only capable person in the firm was a son-in-law. So the family amended the policy a few years ago, highlighting what Scroggin considers a major virtue of mission statements: they can be an effective tool for managing family conflict.

Indeed a concrete mission statement should serve as an effective communication tool. Fithian advises clients to share the statements, once they're complete, with their children, who are often woefully uninformed about their parents' finances or the inheritance they can expect. Fithian recalls the case of a family patriarch in Miami who at the age of 96 finally felt the time was ripe to explain his finances to his children—the youngest of whom was 74. Still, when clients request it, Fithian will prepare a "clean" version of the family financial philosophy—that is, one without inheritance details—for sharing with children.

In crafting any kind of mission statement, most advisers advocate one or more meetings that include as many family members as are relevant to the project, usually with the adviser in attendance. Andrew Keyt, executive director of Loyola University Chicago Family Business Center, says the more meetings the better. Although Keyt prefers that family members discuss matters face-to-face, he says the interaction can also involve telephone calls or e-mail. One family, he says, met for three hours every month over the course of a year. "The greater the conflict," Keyt notes, "the longer it will take to develop a mission statement."

The larger the family, the more useful it becomes to establish some sort of formal framework. For very large extended families, a subcommittee might even be required. Hughes likes to establish ground rules for meetings and have the family select a meeting chairman and secretary—the former to facilitate dialogue without domineering and the latter to take accurate official minutes. "Great damage has occurred in many families because a clear record of decisions made did not exist," he wrote in his book *Family Wealth: Keeping It in the Family* (Hughes and Whitaker).

AT THE FIRST MEETING, FAMILY MEMBERS typically are asked to talk about their lives and values. Hughes goes so far as to have them read their résumés, because family members often don't realize what the others have been up to. He also asks them each to write down a personal mission statement—a list of the 10 values they consider most important to the family's long-term success—and a description of the family 20 years hence. Participants are also asked to guess what, at the age of 105, they will tell immediate family members has been the most important influence in their lives. Finally, a small committee of family members is delegated to write a family history.

Fithian also puts a major emphasis on his clients' background, particularly childhood issues and the individual journey they took to wealth—a journey that has often not been communicated to other family members.

Some advisers believe a family retreat is the best approach. Lee Hausner, a clinical psychologist in Los Angeles and author of *Children of Paradise: Successful Parenting for Prosperous Families* (J.P. Tarcher), counsels a number of wealthy families. To help them develop a mission statement and action plan, she sends the family off somewhere to talk about their values and their vision of their own family 20 years down the road. She accompanies them and produces a first draft of a mission statement based on what she's heard. Family members are then asked to work over the draft—wordsmith it, as Hausner says—as a kind of homework. In a subsequent meeting, she tries to get a statement adopted, along with an action plan to make the statement a reality. Michael O'Malley, president of Family Business Dynamics in Chicago, also thinks retreats are useful, but prefers to hold off conducting one until the family has already started thinking about the issues.

MISSION STATEMENTS CAN BE PARTICULARLY USEFUL WHEN A FAMILY AND ITS BUSINESS ARE DEEPLY INTERTWINED

Not surprisingly, the process of crafting a mission statement often brings out latent—or emphasizes not-so-latent—conflicts in a family, especially when wealth is at stake. Financial advisers have to be ready for such conflicts to erupt. Some who advise the wealthy on these matters are trained counselors. At Family Office Exchange in Oak Park, Ill., a clearinghouse for high-net-worth families and their advisers, membership manager Mariann Mihailidis says she and other facilitators from the firm bring a psychologist along, if appropriate, to handle any potential explosions when meeting with families. Fithian says that a marriage counselor or therapist of some kind is required in about 2 percent of his cases.

TEMPERS CAN FLARE BECAUSE THE mission-statement process is an occasion for family members to speak the truth to one another. Major differences in values and beliefs sometimes come out at these meetings. But along with the potential for conflict, there's also the potential to work out differences that might have been festering—and hindering effective wealth management. "Families try to put off this stuff," says O'Malley. "I get paid

FAMILY PHILOSOPHY 101

According to Scott Fithian, president of the Legacy Cos. in Quincy, Mass., and author of *Values-Based Estate Planning: A Step-by-Step Approach to Wealth Transfer for Professional Advisors* (John Wiley), the patriarch or matriarch who develops a family mission statement—or what Fithian calls a family financial-philosophy statement—should address the following questions:

- Why have I prepared this document?
- What significant events from the past have helped shape my current financial philosophy?
- What is the source of my wealth, or to what do I attribute my wealth?
- To whom or what do I feel a responsibility or obligation with respect to the distribution of my wealth?
- What are my primary planning goals?
- What are my defining values regarding wealth?
- How do I define financial independence?
- How do I define an appropriate inheritance for heirs?
- How would I allocate my estate assets if my only choices were government and charitable purposes, taking into account all the taxes I've paid over my lifetime?
- On what basis and to what extent can my advisers rely on the goals and objectives articulated in my financial philosophy?

to make them face these things and to help them establish a process to resolve these discrepancies."

Part of the adviser's job is also to keep families from hiding behind platitudes that can be easily ignored. Hausner, for instance, considers drafting a mission statement only a first step. Once the statement is in place, she insists the family identify some "behaviors" that embody or advance the mission and set a schedule for adopting these behaviors. "If you don't put a mission statement into operational steps," she says bluntly, "it's a joke."

Some advisers even contend that the statement itself is a lot less important than the process families go through to create one. O'Malley, for example, tells of a family he advised that had a well-known business worth billions of dollars. When the process of drafting a mission statement began, he says, "it was an eye-opener for each of the siblings to learn what the others prized."

Still, a mission statement can also lead to some very concrete results. Hughes, for instance, tells of a family whose mission included annual physical examinations for all members. The family agreed to pay for the examination if a member couldn't afford it.

Also, families often ignore incompatible views, O'Malley says. Seeing things printed in black and white on the mission statement makes differences harder to overlook. They realize how serious their differences are.

Mission statements can be particularly useful when a family and its business are deeply intertwined. Keyt cites the example of a family he counseled that has a media business. The family mission statement was combined with the company mission statement, which included a commitment to journalistic integrity. In this and other cases involving a family business, he says, "a mission statement is an excellent tool in helping families come to a common understanding of their commitment to the business and what the family can expect in return for that commitment. It's a statement for the family about why they are in this together."

No matter what approach individual advisers use, all agree on one thing: family members must "buy in" to the mission statement and any related action plan if it is to be of any value. And the statements can't be fixed in stone; the experts urge that mission statements be reassessed every few years. "This is a living document," says Mihailidis.

"We will not alleviate every major dysfunction," says Hausner. But with a mission statement, "you give a large family a better chance of being successful in the business of being a family, or staying together in the family office, or dealing with the family business in the most businesslike manner."

A POSSIBLE MISSION

Mariann Mihailidis, family-office membership manager at Family Office Exchange in Oak Park, Ill., offers the following as a sample mission statement:

Our family mission is providing the means to support and enhance family values; to provide freedom to pursue one's dreams and pursue what will make one happy; to provide independence to each generation through independent wealth; to educate each family member to the utmost; to serve as competitive capitalists, because this is the mechanism to sustain wealth; to serve as active stewards for the wealth of future generations; and for philanthropic purposes, to contribute some amount of time, talent, and wealth to improving society.

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