

THE BUSINESS OF FAMILY

HOW TO STAY RICH
FOR GENERATIONS



LINDA DAVIS TAYLOR

More Praise for *The Business of Family*

“*The Business of Family* is an easy-to-read primer on how to put ‘family first’ through communication and commitment. Linda Davis Taylor writes, ‘Money can either unite or divide us. The money doesn’t decide. We do.’ Linda guides the reader in using business principles to keep the family—and its values—intact.”

—CAROL A. JOHNSTON,
Partner in Trusts and Estates
at Katten Muchin Rosenman LLP

“Linda Davis Taylor shows you how to blend business experience, strategic planning, conflict resolution, and investment advice into a package that will take your family assets to the next generation and beyond. A longtime investment and family adviser, Taylor offers practical advice and wisdom on how to manage the wealth and well-being of our families. A ‘must’ read for every family with enough money to pass some on to the next generation.”

—JOHN BARKAL,
Professor of Law and Director of Clinical Programs,
University of Hawaii Law School

“Provides superb strategies to families seeking to instill appreciation for their resources and to ensure that succeeding generations will manage those resources wisely. I found her suggestions for creating a sense of philanthropic responsibility particularly engaging. This is a sophisticated plan for promoting multi-generational fiscal responsibility, philanthropic inclination and family harmony.”

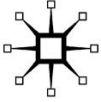
—SCOTT H. BICE, ROBERT C. AND NANNETTE P. PACKARD
Professor of Law,
University of Southern California

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The Business of Family
How to Stay Rich for Generations

Linda Davis Taylor

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First published in 2015 by
PALGRAVE MACMILLAN®
in the United States—a division of St. Martin's Press LLC,
175 Fifth Avenue, New York, NY 10010.

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registered in England, company number 785998, of Houndmills,
Basingstoke, Hampshire RG21 6XS.

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ISBN 978-1-349-69575-1 ISBN 978-1-137-48787-2 (eBook)
DOI 10.1007/978-1-137-48787-2

Library of Congress Cataloging-in-Publication Data

Taylor, Linda Davis.

The business of family : how to stay rich for generations /

Linda Davis Taylor.

pages cm

Includes bibliographical references and index.

1. Family-owned business enterprises—Management.
2. Family-owned business enterprises—Finance.
3. Strategic planning.
4. Family-owned business enterprises—Succession. I. Title.

HD62.25.T359 2015
332.024'01—dc23

2014047351

A catalogue record of the book is available from the British Library.

Design by Newgen Knowledge Works (P) Ltd., Chennai, India.

First edition: June 2015

10 9 8 7 6 5 4 3 2 1

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Foreword

Business and family are the two most important entrepreneurial institutions in the world. To build either of them successfully requires tremendous commitment, energy, and focus. If all goes well, the founders will have something of value to pass on to future generations.

When I was a young man, I knew I wanted to succeed at two things. The first was to build a significant family. Having adequate resources would make this much easier to do, so I also wanted to do well in business.

Sixty years later, I am grateful to have accomplished both of the goals I set out to achieve. Our third generation is launched and thriving. They're doing things differently from my generation, and they're doing well. The goal was to provide them with the encouragement and skills to put their own stamp on things. I founded three successful businesses, the fruits of which have allowed us to support our families and to give back to the communities that provided us with so much opportunity. I believe it's important to be grateful.

As an investment counselor for over fifty years, I have studied with admiration the entrepreneurial successes and failures of companies. I've spent my business career advising families how to build their own capital by investing in great companies. In my opinion, the combination of the two—business and family—is a natural. As the years went on, my interest in family issues deepened. I discovered that the difference between a good outcome and a truly great outcome lies in the family relationships and the decisions families make.

My other great interest is in education. It's what can really give people a leg up as they get to work on making their lives a success. It was in the education setting where I met Linda Davis Taylor. We have been colleagues for nearly 25 years as trustees at Scripps College, business associates, and close friends.

Linda and I share the belief that families are the most important businesses of all. We've counseled one another on every significant business and family issue there is. About a decade ago, at Linda's suggestion, we began having regular family meetings. At first, they were very simple undertakings. We would spend an hour or two in my office with my immediate family to review important and sometimes not so important items of the day.

Our family meetings have continued. And they've evolved. We've done many of the things Linda suggests in her book, including financial education, philanthropy, and succession planning. I'm at the stage of life where legacy is quite important. I want to make sure I do everything I can to pass on wealth. Money is one kind, of course. But the greatest wealth is found in family.

That's why this is a truly important book.

PHILIP V. SWAN

Acknowledgments

The inspiration for this book has come from families.

First and foremost, of course, is my extended family, those who came before me and paved the way, and those who have loved and guided me through my journey. My wonderful husband and best friend, Jim Taylor, gave me steady encouragement, astute comments, and most of all, time and patience. Our amazing daughters, Della and Katie, have been my best cheering section since day one. I know our family's future will be in good hands with them.

Hundreds of families contributed to this project. This didn't happen through a formal research process, but over many years of sharing their experiences, challenges, and ideas about how to build and sustain successful families. I am grateful to each of them for the gift of being a small part of their family's path.

My professional colleagues in business, education, and philanthropy provided insights, wisdom, and unfailing support. They supported my passion. They are my family of mentors and friends.

The expertise and guidance of a superb editorial team actually made this project a reality. Laurie Harting, Cynthia Zigmund, Brett Block, and John and Lisa Barclay placed their confidence in me and never wavered.

Thank you and good luck to all of you who are committed to the business of family.

Introduction

How do families build and maintain their wealth? This question has challenged families for generations. In business, any wise entrepreneur would develop a plan to guide the venture. Though most people don't have a strategy in mind for their families, that is precisely what they need. This book applies business concepts to investment in our families with as much focus and discipline as we do for investment in our financial assets.

As the CEO of the nation's oldest investment advisory firm, Clifford Swan Investment Counsel, I've seen firsthand how important it is for the family to be connected by a common purpose. With an unprecedented amount of wealth passing to the next generation, the opportunity exists to reverse the old "shirtsleeves to shirtsleeves in three generations" proverb. Applying a business mind-set to the family strategy will help families do that.

First Things First

Starting a new business takes more than a dream. Business people have a plan. From financing to manufacturing to sales, owners pour in sweat equity as well as financial equity. Building a successful family requires the same well-thought-out strategy.

A business without a plan won't be in business for long. A family without a plan may be around for a while, but will it prosper and thrive? Nobody sets out simply to break even. You need profits to stay afloat. For a family, those go beyond money. By using the same winning ideas that successful companies employ, your family can reap benefits that will keep you in the black.

A company needs a dynamic vision in order to be competitive in today's marketplace. For a business, this is the drive that's sewn into the very fabric

of the organization. Once established, it allows every employee to understand the company's ambitions. For a family, a vision is what keeps everyone working together, even in challenging times.

Financial circumstances can change. Jobs come and go. Illness may strike. Divorce happens. When problems arise, family members must be just as unified around a common purpose as members are in a business.

"Family values" is a phrase so common that we assume we know what they are. But do we? Companies are now including values in their strategies and business schools are big on ethics classes. "Value" is a buzzword with a dual meaning, but the true definition remains elusive. From Enron to Madoff to the recent financial collapse, it's clear that earnings have to be grounded in reality to stand the test of time.

Insider trading is the ultimate financial crime. However, family values that are frittered away can do generations of harm. Defining values and practicing them is a strategy every family can use to prevent anybody from taking a shortcut that doesn't pay.

Getting Your Family on Board

Collaboration and teamwork are the new axioms for business success. Firms vie for a spot on the "Best Places to Work" lists because happy employees make productive employees. Company loyalty can't be taken for granted anymore, so companies invest to retain the brightest people.

Businesses develop their people and strive for goals where everyone has something to gain. A family that identifies and utilizes each member's strengths lays a foundation of trust and communication, the two most crucial ingredients for working together well. All families face problems, as do all businesses. Those that forge real partnerships with their people will prosper.

Whether it's a company revenue target or an IPO, a family vacation or a family vision, having goals that are specific, realistic, and inspiring creates enthusiasm and optimism. The mission sets people on course. The goals get them there.

With a purpose defined and milestones set, the family has a head start on becoming a winning team. Small accomplishments lead to bigger ones. One set of goals leads to the next, and the seeds of success are sown.

Good results are a product of clear direction, and everybody doing his or her part. From the sales team to the C-suite, each employee in a company

has a role. A family also needs schedules and duties assigned to organize the whirlwind of activity into meaningful progress. Someone has to make the calls on who's doing what and why.

Even when everybody understands what he or she is supposed to do and why, problems still crop up. If things go off the rails at work, results suffer until the issue is fixed. When this happens at home, we need a warning light to get us back on track. Working together toward common goals makes mid-course corrections much easier.

Investing in the People

Upper-level management wouldn't turn over important responsibilities to new employees without making sure they had the skills and training for the jobs. Performance is reviewed. Budgets are scrutinized. But families often take this gamble because financial education is frequently ignored.

We teach our kids academic skills and athletic skills, yet money skills remain lacking. From the Internet to debit cards, it only takes an instant to make a bad financial decision. For parents, educating their children about money isn't simply about getting a small return on their cash but generations of returns.

It's never been easier to connect and communicate with family members. From smartphones to e-mails to Skype, our loved ones are only a click away. The challenge is communicating well when it comes to important matters, especially money.

A smart company would never have just one "make it or break it" meeting to relay its objectives to employees. Be it at work or at home, financial matters can rarely be summed up in a matter of minutes. Money talks shouldn't be treated like texts. Though they can be short and to the point, they require some time and effort. Families need more than a "shared data" plan. They need a shared strategy that really pays off.

In business, the role of mentors in passing on corporate wisdom is a priceless asset. In a family, mentorship is equally essential. Handing down history and insight from one generation to the next is smart HR for the family.

Company leaders develop their employees for the future with an objective in sight. They fund workshops, advanced degrees, and specialized training to keep their people on the cutting edge. Families have a built-in talent pool, an often overlooked and untapped resource. This is the best kind of capital there is—the human kind.

Staying on Track

Meetings are a mainstay at the office. From mom-and-pop businesses to global corporations, firms need them to preserve productivity and sustain the flow of information in a fast-paced world. Even if the family version of a business meeting is in the living room rather than the boardroom, a regular gathering will keep confusion low and morale high.

From the family calendar to family finances, including everyone in the discussion keeps the mystery out of how important decisions are made. It's a forum for conversation, information, and solving problems. Whether it's a daily check-in or an annual retreat, family meetings are where the business of the family happens.

Businesses focus on the bottom line. Nobody blushes during frank company budget talks. That's not always the case when men and women return home, and they're off the clock. Earnings, spending, and savings are line items a family can't ignore. At work, sustainability hinges on taking care of profits as well as employees to guarantee resiliency over time. A family has to conserve for the future too. Making finances a little more human and family a little more corporate in dealing with money is a winning formula for staying rich.

The wealthy know their family and their money aren't mutually exclusive. Though they may pay someone to do the spending reports for them, they educate their entire family about money. This same principle will work for any family, even if their version of a family office is the computer in the family room.

Today's technology allows every family to have a hub for its operations. The phrase "home office" will have more meaning when every member of the family can access it, provide input, and unite around shared goals. In whatever form, a family office helps the family focus on its future.

Long-Term Planning

The best companies appreciate that giving back to their communities goes beyond the tax write-off. Families that give and make it about more than cutting a check earn extra dividends too, keeping everybody grateful and grounded. Working together for a common cause teaches financial skills and foment a sense of purpose. Families built on values rather than fortunes are destined to endure.

Whether you're in a corporation or a family, success is not guaranteed. The research and development division of a firm is dedicated to investigating new ideas and cultivating them so the business continues to grow. R&D is about spending now to produce revenue later. A company that invests in itself to fuel its future sales keeps its profits high.

Whether it's saving for college to educate the next generation or saving for a trip so the family can spend quality time together, investing for the future is about more than having a savings account. Family membership evolves. As it does, the members bring new skills, talents, and ideas to the table. This is growth potential for the family, and it needs to be nurtured.

Businesses accept that their employees won't work there forever. Retirement is something they plan for. In a family, there is no success without succession.

Once the mission is crafted and the values are clear, the cherished family stories need to be told. Although the family may have a financial estate plan set up, the members need an emotional one too.

* * *

Understanding how to run a successful business isn't all that different from understanding how to run a successful family. Just like a company, a family must invest in its people who require support, training, and commitment to a purpose. Just like a company, a family deals with unexpected challenges but never forgets to celebrate its milestones. Just like a company, a family needs laser-sharp focus on its goals in order to thrive.

Why haven't families put such plans in place? Because we haven't been shown how to.

If the answer to maintaining wealth were easy, the old "shirtsleeves to shirtsleeves in three generations" problem would have disappeared long ago. Families and money are complicated even when they're not together. *The Business of Family* shows you how to reframe the old business adage about working smart rather than hard.

The Business of Family is not a business book about how to make money. *The Business of Family* is about the most important business of all—your family.

First Things First

CHAPTER 1

Strategy: A Blueprint for Your Family

There are over 9 million households in the United States worth at least \$1 million. This number grew by over 600,000 in 2013 alone. Let's be honest, if we have money, we want to hold on to it. And if we haven't yet made it, we're working hard to reach our magic number. To get there, we need to make sure we have a family plan that's as strong as our financial plan.

Over 70 percent of wealth doesn't last beyond three generations. That means making the money isn't the only problem. Keeping it is just as challenging.

Whether our family succeeds depends as much on what we do as on what our investments do. This isn't the "soft stuff" as so many financial experts say. It's the hard stuff. A family's business is about a whole lot more than money.

After years of counseling affluent families on their finances, I thought I had a firm grasp on the relationship between family members and money. That was until my father's eightieth birthday. As my siblings and I gathered for a casual dinner to celebrate, Dad told us about leaving his southern town on a freight train in search of something better. It was the first time he'd ever mentioned this pivotal moment. We had never talked with our parents about what motivated them to do all they had done, or what we—the next generation—wanted to do with their legacy. A year later, both of our parents were gone, and we had missed a priceless opportunity. I realized that the "business of the family" had yet to embrace the secrets that actual businesses know by heart.

Sooner than we can imagine we find ourselves as the grown-ups, parents aging and passing on. Do we understand what they stood for? Do our kids have a sense of the family's history? Will our grandkids be connected enough to care?

Billionaires beginning with the Rockefellers set up family offices to do nothing but run their affairs. This same principle will work for any family, even if their version of a corner office is a laptop in the corner of their kitchen. Every family needs its own business plan to ensure its members know where they've been, where they're going, and how they are going to get there.

Study after study shows that it takes good plans as well as good habits to succeed in business. Private companies make up 99 percent of all firms in the United States. In 2012, these businesses grew twice as fast as public companies in the Standard & Poor's 500 index. A *Forbes* analysis has suggested that successful firms like these have six strategies that contribute to their superior results.¹

What exactly do these companies have in common?

1. They have a clear mission. If they lose focus, they will ultimately lose money.
2. They take good care of their employees because people are their biggest asset.
3. They are willing to adapt and change in order to remain competitive.
4. They make decisions with long-term results in mind, not just short-term gains.
5. They look outside their own walls so their thinking doesn't get stale.
6. Over half of these firms are still family-owned, and they have a strategy for the family as well as for the business.

While we don't often link business success to family success, this last statistic proves that it is a readily transferable model. Thinking like an owner—whether in a business or a family—is a winning formula. We all can use time-tested business model methods to make our families run better.

Sweet Success

Who would have thought that one of America's most successful families started their business with only \$400 while working out of a one-room