

[in-sahyt]

*the ability to understand
people and situations in a
very clear way;*

*an understanding that
sheds light or helps solve a
problem.*

The Family Charter

*A Guide for Creating a
Legacy Family Structure*

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Emotional Economics

Love and money, what we call “emotional economics”, are the cornerstones of life. Sigmund Freud, the forefather of modern psychiatry, is given credit for stating that the secret for a successful life is balancing *Lieben und Arbeiten*, love and work.¹ Dr. Randel S. Carlock, co-author of *When Family Businesses are Best: The Parallel Planning Process for Family Harmony and Business Success*, wrote, “Families are about caring and businesses are about money — not a likely formula for a successful partnership.”² For the purpose of this paper, our focus is on creating a Family Charter, a written and endorsed way for addressing and handling the complex, and often fragile, issues founded in a legacy family.

A legacy family is defined as a relationship system for the successful transfer of both financial assets and family values to the next generation. It is a complex system of small subset systems (individuals) connected to mid-size systems (family units), nested within larger system (extended and generational families units), and linked to a much larger system (wealth management). Everything is connected and influenced by everything else. A challenge for a successful legacy family is the parallel, but not necessarily complementary, tasks of attending to two major systems at the same time.

- **The “external” system of wealth creation and management.** The task of continuing the vision of the founders, operating with the values that made the family successful in the first place, protecting assets, defining financial goals, adjusting to taxes and market changes, understanding investments and ROI, implementing distributions, creating foundations and estates, and increasing the financial portfolio.
- **The “internal” system of relationship harmony and management.** The task of connecting and inspiring family members, strengthening the family culture, adapting to generational values, maintaining accord, managing stress, working as a team, upgrading family charters, responding to special demands, and enjoying the process as members of each generation face transition and change.

The “shirtsleeves to shirtsleeves in three generations” proverb describes the propensity of 70 percent of family wealth enterprises to fail by the time the founder’s grandchildren take a leadership role.³ The major causes of financial collapse in family wealth transition have more to do with psychological patterns in the family than with legal, financial, or business planning.⁴

- Successful in transition of wealth over three generations (30%)
- Loss of wealth due to a collapse in trust and communication in the family system (42%)
- Loss of wealth due to heirs being inadequately prepared for creating and managing wealth (17%)
- Loss of wealth for lack of proper governance structure (8%)
- Loss of wealth for insufficient tax and legal planning (3%)

Family Charter Framework

I. Preamble

The Family Charter forms a framework for how family members and other interested parties will address and handle family relationship and financial concerns. The priority is to balance the rights of family members to enjoy the benefits of family prosperity with the necessary controls to successfully manage the wealth over generations. The Charter should state how it relates to adopted governance agreements; shareholder, employment, distribution, sale of assets, succession, and/or any other legal arrangements. The primary feature of the Charter is an agreement by adult family members to core values, relationship principles, and financial standards in order to protect the family wealth and enhance family harmony.

II. Ethos

The Family Charter should state the Founder’s motivations and philosophies in creating a legacy family as well as the family’s current moral and financial ideals and principles.

III. Family Council

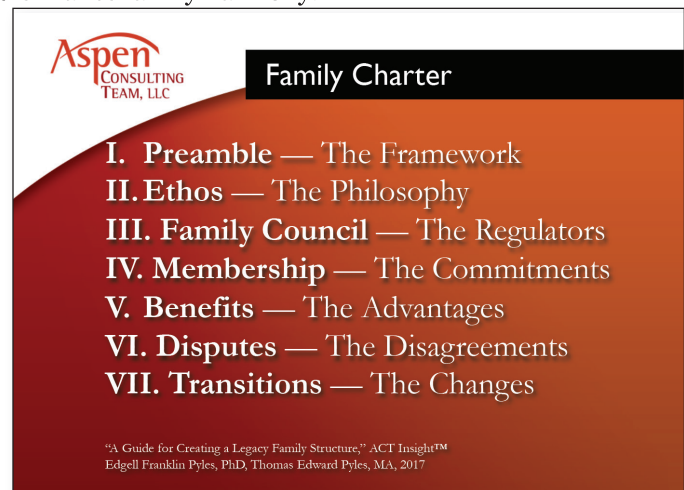
The Family Charter should be governed by a Family Council. One of the purposes of the Council is to help nurture, manage, and regulate relationships among family members with the goal of alignment with the family ethos. The Charter should outline the duties and responsibilities of the Council for reaching this goal and how members are selected or elected.

IV. Membership

The Family Charter should define levels of memberships, relationship principles, and financial standards expected of members. An annual commitment by family members to abide by these canons is not unusual. The entry and exit process, how a person comes under the Charter or leaves the Charter, should be explicit.

V. Benefits

The Family Charter should outline the individual and family unit advantages and gains from being an active member of the Charter. This could include health, housing, education, career opportunities, special needs, travel benefits, generational endowments, foundation positions, and next generation mentoring.



VI. Disputes

The Family Charter should outline how disagreements will be handled, including consequences. This could address addiction and “black sheep” dynamics.

VII. Transitions

The Family Charter should outline how expected and unexpected transitions; deaths, illness, disabilities, breakups, financial recessions and successions will be addressed and handled at the personal and relationship level.

“Do you not know that in a race all the runners compete, but only one receives the prize? So run that you may obtain it. Every athlete exercises self-control in all things. They do it to receive a perishable wreath, but we are imperishable. Well, I do not run aimlessly, I do not box as one beating the air.”

— I CORINTHIANS
9:24-26

References

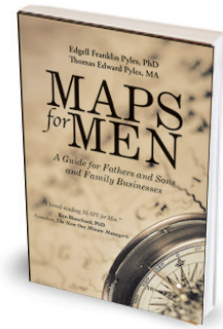
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2. Randel S. Carlock, “Why the Best Family Businesses Plan,” *Faculty and Research Working Paper, Wendel International Centre for Family Enterprise, INSEAD*, (Singapore, 2009), 2.
3. George Stalk and Henry Foley, “Avoid the Traps That Can Destroy Family Businesses,” *Harvard Business Review*, (January–February, 2012).
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