Sustaining a Family Dynasty: Key Issues Facing Complex Multigenerational Business- and Investment-Owning Families

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As a business family moves from the second to the third, fourth, and succeeding generations, and seeks to maintain shared family control of its often highly diversified financial and business assets, families around the world have created a complex web of structures, agreements, councils, and forms of accountability to manage their wealth. In working with such multigenerational dynasties around the world, we have begun to see that successful transmission of wealth, and sustaining of family connection, depends on a highly creative web of such structures. This article will focus on the structures and agreements that we have seen in such families. A family that owns a business, or substantial investments, is at the intersection of several complex systems and serves a multitude of masters, purposes, and constituencies. Facing continual change from the business environment, and from internal pressures as people develop, in order to thrive, the family must develop a clear infrastructure to manage the interrelationships of people, business, and investment. It must regulate and integrate the interests and concerns of the many people in many ways. As a family enters the third generation, it has become a complex structure with several family branches, diverse interests and stakeholders, and challenges to sustain collaboration and effectiveness. This article presents the key challenges that a family must face to create an effective dynasty over generations and illustrates models and best practices for how effective family dynasties develop a governance infrastructure as they grow into multigenerational family dynasties. It highlights the core structures that make up effective governance and the key agreements that allow a dynasty to work.

The challenges for a family to succeed in sustaining a family business or diversifying into several investments jointly owned by family members multiply with each new generation. Although the family's original fortune is usually created by a single founder/entrepreneur, over generations the fortune is subjected to pressures to be divided among a growing pool of heirs and relatives. A family that succeeds in keeping its fortune unified within a single business or series of shared investments, with multiple family branches sharing control and ownership, is quite rare and the journey is difficult.

If the family is successful, the value of its businesses and investments can multiply through the generations. We call these multigenerational families with several branches and successful business portfolios, dynasties. Although the word may conjure images of monarchy and feudalism, we feel it is an appropriate term for a network of families who are joined as an economic unit, enjoying and multiplying the fruits of the wealth generated long ago by a family entrepreneur.

A family enterprise rarely makes it to the dynasty stage. Frequently, the core business is divested or sold or family members inherit their own fortunes and go their own ways. Each family branch has different needs, agendas, capabilities, and commitments, making it difficult for a family to maintain a shared investment, whether through a family trust, or voluntarily through a family holding company or board. Yet, many families aspire to that as a legacy to future generations. What issues or challenges need to be overcome to promote shared family identity and investment, rather than having its fortune subdivided into smaller individual estates?

To succeed, families with substantial wealth cannot leave their operations to chance, nor can they completely delegate their financial dealings to advisors. They have to be active stewards and responsible owners in making key decisions and overseeing their assets. The establishment of formal structures and processes to optimize these relationships is known as governance.

An added challenge is that some dynasties are not voluntary associations, but are bound by regulated entities and trusts controlled posthumously by the founder's wishes. Some complex trusts and estate plans, designed a generation before, may not anticipate current realities. The legal system is delighted to step in and manage any emergent disagreements, as highly publicized lawsuits between relatives make for a media feast.

Conflict or a breakup of a group of assets is more likely as time goes on, as prior agreements can be misunderstood, or be informal and thus open to varying interpretations. Thus the nature of collaboration, conflict resolution, and shared governance is made more difficult. Even so, there can be great rewards when a consolidated fortune is able to grow over generations.

Family issues often intrude on the business and financial decisions of dynasties. The family wants to sustain connection with more and more members having less and less of a common foundation, but often with simmering rivalries, and different perspectives. As individuals grow up, they know they come from a well-known and wealthy family, but they need guidance in learning their responsibilities, and in developing a personal identity and career. They may also feel a personal need to break free from the rest of the family and strike out on their own. Issues of ownership, representation, management, and financial returns are subjected to family and personal development considerations. For this reason, a single small group who has responsibility for the core business, or combined financial entities, may not be fully able to represent these concerns or successfully mediate the issues of the family.

Many dynasties find themselves fragmenting or greatly reducing their wealth, but throughout the world, global family dynasties control an important share of the world's wealth and commerce. Family control of major corporations and investments form the backbone of the economies in many developing countries. In the United States and Europe, families frequently exercise influence over large, often public, companies that their families have founded and grown. As consultants, we have worked with such families in Latin America, India, Turkey, Europe, and Asia. In addition to their prevalence and power, we find such family dynasties often operate under a set of deep moral and spiritual values, and take a long-term view of wealth creation that they sustain independently of the marketplace.

This article outlines the two key challenges facing a family dynasty—developing wealth-producing assets and generating structures and agreements that integrate the voices of all the family owners or beneficiaries. Without collaboration, further successions won't work. In a future article, we will present and elaborate further on some of the integrating structures and agreements that such families develop to respond to these challenges.

By defining clearly the challenges and the range of practices we have encountered, we hope to begin a dialogue with others who have begun to theorize about these factors. Locating common and successful practices and defining trends can help to organize formal research into effectiveness and best practices. This effort can in turn help more families to survive for multiple generations as an organized, wealth-producing entities.

Our purpose is also to guide advisors through the complexity of family governance issues so that they can offer the best financial and business advice. If a family anticipates the growth and dispersion of its family, and creates mechanisms to manage the multiple roles and interests, we find it can create a foundation for suc-

Table 1 Stages of Family Business Evolution

Generation	G1: Entrepreneur	G2: Family Partnership	G3: Business Dynasty
Business form	Entrepreneurship	Maturing business	Holding company or family office, with diversified assets
Mode of control	Founder/owner/manager	Sibling team	Family branches
Strategy	Personal vision	Renew business	Sustain profitability; generate new wealth
Governance structure	Ad hoc, implicit	Informal board, implicit policies	Board with outsiders, formal policies

cessful family ownership and/or management through generations.

How Dynasties Evolve

Gersick, Davis, McCollom, and Lansberg (1997) presented a model of generational evolution, showing how a family entrepreneurial venture can grow over two or more generations into a diversified set of business and financial entities, owned by several family branches of "cousins." Table 1 shows the shifting characteristics of a family business as it evolves to become a business dynasty. This evolution may take more than three generations if the entrepreneur has a single heir, or if one family branch sells to the other.

The family's business can evolve in two directions. Type 1 results when the original family business goes public, or becomes quite large, with layers of professional management. Most often the legal business entity in this case is a corporation. The family can still control the company, but it does so through a board of directors and involves other shareholders who include nonfamily members, and must create clear policies for involvement and oversight. Examples of this are companies such as Ford, Cargill, The Gap (controlled by the Fisher family), Mars, Coors, Smuckers, S.C. Johnson, Dow-Jones, and Nordstrom. They may have a family or nonfamily CEO. Over time, unless the family is able to maintain control through voting stock, and manages to avoid diluting its holdings, the family may lose control of its core business.

A Type 1 business-owning family must decide what form of family participation makes sense. Larger enterprises often feature periods where a family member is CEO and others when a nonfamily CEO leads and is responsible to a board whose chair is a family member. This occurred at Ford, Cargill, Levi Strauss, and Corning. The recent decision of the Mohn family, controlling owners of Bertelsmann, to fire their high-profile CEO and begin to install family members in key management roles, is an example of how both market and family factors lead to changes in family involvement.

A second common direction for a dynasty arises when the family has sold its core business and then assembles a portfolio of investments of various asset types. These Type 2 families may operate several business entities with several different legal and financial structures that the family sees as connected under the broader control and direction of the family. For example, a family may control a public company (by having all the voting shares), a real estate trust, several partnerships or limited liability companies, a foundation, and various other investments, each of which has its own governing structure. A family can have a blend of majority holdings in some ventures, and a minority investment in others.

Type 1 and Type 2 represent a continuum of styles of evolving family businesses. Most often, a family evolves from Type 1 to Type 2 as it moves into the third or later generation, but in fact, this is neither necessary nor inevitable. There is no way to estimate the prevalence of each type without further research.

Creating Wealth-Generating Business Entities

A major economic task for a dynasty is to sustain its business and investment portfolio, diversify assets, and reinvest returns to ensure continuing wealth creation for a growing pool of family shareholders. This can mean challenging legacy decisions that may have significant emotional investment by the family. For example, the family's decision to sell a core business may not be addressed, even though the business long ago matured. Conflicts among various family groups about different preferences for risk, or types of assets, or who will manage them, may also make it difficult for the family to come to consensus about direction.

Continual Growth to Sustain a Needed Level of Return

Families in the dynasty stage face a challenge related to the ever-increasing number of heirs as the family proceeds through the generations. This is especially true when a family adopts the principle of transferring one generation's wealth equally to the next generation and there are a number of offspring in each succeeding generation. In the case where one adopts the practice of living off the interest and not touching the principal, in approximately five generations a reasonably substantial amount of money is reduced to a fraction of what it started out as the pie is divided more and more. Also, family members may be raised to expect a certain lifestyle that can deplete the family's wealth-producing assets.

Cornelius Vanderbilt did not allow his children to have access to their inheritance. When he died, it is estimated that he was one of the richest men in the world. As trustee, his oldest son decided it was "their money" and gave all the heirs direct access to their inheritances. He, too, was one of the richest men in the world at his death. Some 30 years later at a Vanderbilt family reunion, there was not a millionaire in the group (Vanderbilt, 1989).

This is not an issue if somehow the number of owners or beneficiaries is reduced over the generations by a stroke of luck (e.g., few children) or some principle (family member buyouts) is agreed to, but this is usually not the case. If the goal of the earlier generations is to provide a financial inheritance and legacy to subsequent generations somewhat similar to the magnitude of the one they have enjoyed, then a significant growth factor must be applied to the portfolio.

Families that go through the exercise of calculating how much return will be needed in order to accomplish this growth goal are sometimes surprised to see the number can be 10–15% compounded annually, which is a whopping rate for any business to maintain over time. It is also complicated by the fact that many times the assets that gave rise to the earlier wealth have either been sold or have reached their peak earnings potential. The asset base must be rejuvenated, if not recreated and reinvented, over time. Not an easy task.

Sometimes, assets exist for emotional reasons that don't have much to do with return and psychological barriers evolve to looking at them with the same standard as one would a regular business asset. For example, some overseas dynasties try to create employment and meaning for family members by arranging for each heir to own his or her own business, many of which are far from profitable. One very large family dynasty in India has 23 operating businesses for its heirs, each of whom is a managing director but, alas, only one of them generated any profit. It is sometimes difficult for the family to adjust to this kind of thinking and then implement a rational investment philosophy and strategy.

Investment Philosophy and Asset Allocation

The heart of portfolio management within any group of investors, but especially a family situation, is to have a hammered-out, agreed-to, asset allocation plan and investment philosophy. This spells out the growth goals, risk tolerances, liquidity needs, and so forth, as well as the expectations of all the key players. This approach follows the basic tenets of modern portfolio management, which has as its core diversification and determining an asset mix to match investment goals. Experience has shown that most of the time (especially in this economic environment) in order to hit any kind of substantial growth goals some portion of the assets needs to be placed in higher risk, difficult to manage vehicles such as private placements and alternative investments. This issue bumps up against the fact that it is very difficult for a family to maintain cohesion, focus, and have to deal with all the challenges of managing volatile and high-risk investments. It is very difficult for a family member, especially in a younger generation, to take responsibility for an investment that may fail, due to the personal relationship to other family shareholders.

Also, it can be difficult to diversify from one large asset class, such as a major position in a publicly traded company or oil and gas. A family often has a substantial attachment to one asset or company that makes it hard to relinquish. A family whose goal is to diversify a portfolio whose major asset is oil and gas has a difficult time mounting the resources necessary to accomplish diversification. Further, it leads them into areas that initially may be beyond their expertise. The prudent need for professional managers may run counter to a tradition of family management, even though the family members are not prepared to meet the new set of challenges.

Selling the "Family Jewels"

Another difficult challenge facing a family dynasty is the decision to give up control or sell its stake in its core family business. A global study (*Economist*, 1999) found that a majority of families who had sold their companies would reconsider the decision if they had it to do again. Their concerns were that selling the family business reduced the family's power, visibility, status, and employment opportunities for family members in current and future generations. The financial returns of the business did not figure into their considerations.

The conflict between business demands and emotional attachment to the business stems from the family's legacy and founder. If the business continues to grow or perform enough for all family members to be financially secure, this is not an issue. However, infusions of capital may be needed, which families often cannot commit, or that make it more difficult for the family's core business to continue to produce returns. So the family must make decisions by weighing emotional attachment versus wealth creation.

Several recent examples are instructive. The Bronfman family grew Seagrams into a global spirits powerhouse in two generations. However, the company diversified by buying a large stake in Dupont Corp. Third-generation successor Edgar Bronfman Jr. felt that the two entities were not complementary, and led the family into a strategy of converting its control over its companies into a less than controlling stake in entertainment conglomerate Universal, that was in turn sold to Vivendi. By giving up direct control and moving into a new business, Bronfman found himself in conflict with the CEO, but without the power to remove him. Finally, after a disastrous decline in value, Bronfman had to face his worst fear—being the first family member to lose great amounts of wealth. The diversification strategy was a failure.

The risks of a family abandoning its secure niche to enter the financial arena are great. Levensohn (1999) presents an example where the Hixon family agreed to sell its core business, AMP, in which it had been a major shareholder, to Tyco. The value of its investment declined dramatically amid the mismanagement of that entity. Is the lesson that families should stick with the business they know? Not necessarily.

In contrast, the Pitcairn family founded public company Pittsburgh Plate Glass around the turn of the century (Jaffe, Junge, & Paul, in press). After a great run of wealth creation for the family, in 1987 the family decided to sell its shares and diversify into financial services. They created Pitcairn Trust Company and offered family members the opportunity of "free association"—to either take their money out or join the new entity. More than two-thirds of family members elected to join the new entity, which has been profitable. This kind of diversification effort seems to be successful about 50% of the time.

The Bancroft family, who owns controlling interest in Dow-Jones, has maintained a steadfast and conservative commitment not to diversify and the business is significantly lagging the financial performance of its rivals. Deep divisions within the family have organized around improving the underperforming company versus maintaining a commitment to the high ideals of journalism as represented by the "family jewel"—*The Wall Street Journal*. Until recently, the family board members were known for loyally following the recommendation of management rather than challenging direction and policy. Unrest in the family has led to a more active and challenging board.

Sustaining and growing wealth-generating entities face a complex and often conflicting array of problems and questions. The key is to collaboratively determine a process of achieving direction and then to develop and implement an execution strategy. Most often, both aspects are aided by calling on outside directors and advisors.

Unifying the Voice of Family Owners

Originally, a family has a unified voice in the family business leader, who passes his or her wishes on to the children, who grow up and inherit the business. They in turn have their own families, who may grow up with an incomplete understanding of the founder's intent and values, and vastly different desires, needs, and concerns. Keeping a dynasty together means keeping these many diverse people connected as a family, and aligned around the vision, values, and strategy of the family.

We use the metaphor of a *confederation* to denote the governance of a dynasty. Like the colonies coming together to organize the United States, each person is a sovereign unit who chooses to join the union. Once joined, however, they are constrained by agreed-upon rules and principles. For example, exit must follow a predefined process. Each individual has rights and responsibilities. The various structures—legislative, executive, and judicial—are organized in various entities and have delegated powers that are limited by various checks and balances. Individuals who join later or are born into the entity are bound by these agreements. In this way, a family dynasty that holds significant wealth, power, and opportunity can organize the many desires of its members into a unified, capable, and empowered union in order to be successful.

Preexisting Legal and Financial Entities

When a family reaches the dynasty stage, there are typically a number of complex legal and financial entities in place that have agreements and rights as a part of their structures and processes. Typically, these can involve interrelated trusts, partnerships, and corporations. Sometimes these entities were created in order to minimize estate taxes and thus carry with them a number of constraints on what is possible from a wealth-management or growth perspective. They also may dictate a working arrangement among individuals that may or may not be propitious.

For example, sometimes you will see trusts that call for the beneficiaries to stay together for 50 years. It is challenging for any "captive" group to maintain a constructive and successful business relationship for this period of time. The issue here is the difficulty and the pitfall one encounters when a group of people are forced to work together rather than people joining together out of an alignment of their own self-interest with the group goals and objectives.

The legal and financial arrangements may call for decision-making power that may or may not make sense. For example, sometimes the trustee is an individual who was the trusted advisor of the grantor, but has only a passing relationship with the current beneficiaries. Conflict and mistrust can develop that may eventuate into an adversarial relationship. An important question and concern is the succession of the trustee and the process by which it occurs. For example, if the document calls for the trustee to name his or her successor, then a lot of issues come up for the existing trustee regarding how that is going to occur or what the choice will be. Inevitably, the family beneficiaries want a voice.

Many times, these legal and financial agreements were put in place 50 or 60 years ago when the world was very different than it is today. It is almost impossible to establish an arrangement that can fully anticipate all the possible changes that might occur in the family and the business 50 to 70 years in the future. However, many of these agreements (especially trusts) were designed to do just that for estate tax planning purposes.

Liquidating a trust is a milestone event for a family. After years of dependent status, under the control of trustees, family members come into control of their assets. This is the time when the family must firmly define its governance structure and begin to work as a team or else simply separate ownership. As the time approaches, families often begin to ponder past unfairness and put pressure on the trustees. A conflict of interest may emerge between the trustees, who benefit from high fees, and the needs or desires of the family members. For example, one trust, which specified that only male kin who worked in the family business would qualify as trust beneficiaries, was challenged by several family members. The trustees, who were sons of the founder, felt a conflict between their fiduciary and familial obligations.

Sometimes, it is helpful to develop complementary structures or to "overlap" a decision-making structure over the existing legal and financial arrangements. For example, an advisory committee to a trustee can be formed to foster communication and provide a collaborative process. This approach is easier and raises fewer obstacles than trying to change the existing arrangements. It is understood that the existing arrangements prevail if necessary, but the overlap structure helps achieve greater unification by being more inclusive and participative. Everyone involved needs to be in agreement and willing to work together for this approach to succeed.

Together or Apart? Sustaining the Family Legacy or Fragmenting

By the time the family reaches the dynasty stage, it is a given that the diversity of the ownership group will be an issue if there are a substantial number of heirs/beneficiaries. This diversity involves not only business skills, motivation, and temperament, but lifestyle issues as well.

The key question for the dynasty is: "Why stay together?" Pressures may grow for members to leave, and the foundation of trust and alignment that may have held for several generations begins to crack. Distrust grows between those who have power and receive, for example, a large salary or special considerations from the family ventures, and those who by accident of birth, interest, or capability do not.

The example of the Pritzker family shows how eventually the pressure to dissolve can overcome even the most tightly organized and aligned dynasty. Over three generations the family had amassed a fortune of billions of dollars, including more than 60 companies and 2,500 business entities and trusts. The family was governed by a trio of family leaders, who oversaw various ventures. For many reasons, in recent years reversals and family resentment has eroded trust, leading to demands to break up the trusts and sell the ventures, giving each family member control over his or her own funds. Lawsuits over trust agreements, informal policies, and power have been initiated, and the family faces a breakup of its shared and unified family holding company, the Marmon Group.

Another source of pressure is that the participants did not choose this investment—they inherited it. A legitimate question is: "What are the advantages to investing together versus each person taking a share and investing it on his or her own?" The quick answer to investing together taps such things as familiarity and comfort with the assets and other investors, the ability to share overhead, and participating in the family legacy. The reasons for investing separately are usually motivated by wanting to be more diversified or having a different investment philosophy and/or goals than the group.

To continue into further generations, the dynastic family must come to grips with ways to accommodate the desires of shareholders who want to go their separate ways and redeem all or part of their ownership. Not to do so, will often sow the seeds of ultimate disaster. Many dynastic families have solved this problem by going public, which has three important benefits: liquidity is provided by the market, the valuing process is objective, and the redemption process is straightforward. Privately held companies have problems in all three areas. Most don't want to use company capital to redeem shareholders. The company share value may have been held low for estate tax and other purposes and its basis may seem subjective. The redemption process can be complex and difficult because not all redeeming shareholders can be accommodated when they want. The privately held company must find a way to address all three issues.

For example, the heirs of E.W. Scripps newspaper company all shared in a trust that was set up after Scripps's death. The trust stipulated how it would enable two or three family members who desired to exit to be bought out. If more than that number wanted to leave, the trust was directed to sell the stock to the public. The heirs have chosen to remain together within the trust.

The valuation of stock issue in a privately held company can be particularly vexing and a source of strong conflict. Business appraisers typically discount the value of a minority ownership position. To most people who have not been through the process, it seems like a "smoke and mirrors" trick to pay them less than everyone knows the stock is really worth. In some cases, the only way for an owner to receive "full value" is to sell the whole company. If enough shareholders get disenchanted enough, a groundswell of support for this idea can evolve.

The strong desire to remain private can be a driver for transformation. Roger Milliken implemented major changes in the governance and accommodation of family members to ensure their sense of involvement and desire to continue the legacy of private ownership. Prior to this effort, it appeared that shareholder dissention and chafing at control could precipitate a sale of the company.

Defining the Purpose of the Wealth

Another corollary to the problem of how to accommodate the growing diversity of the owners over time is to pose and collaboratively answer the question: "What is the purpose of the wealth? What should we achieve with it?" Most families who go through this exercise find they can "broaden the tent" to accommodate diversity and take their perspective to loftier goals.

Some families define proudly that the purpose of the wealth is to make people happy and create joy, not simply to secure financial returns. We find that if a family can adopt a set of principles by which ideas brought to the group are evaluated systematically—regardless of their degree of financial purpose—then this overall goal can be accomplished.

For example, if a family member wanted to start a camp for disabled children and proceeded by proposing it with a business plan, then followed a process of modification based on input and, hopefully, eventual adoption, much like any other financially motivated business endeavor, then the family may use some of its wealth to accomplish the goals represented by the diversity. Even though it may seem difficult for this process to work, it can be managed and represents an overarching philosophy and purpose of the family tied to the family's core values. It is worth pursuing.

Family Representation

Other issues for dynasties arise from the sheer number of family owners. Multigeneration dynasties—such as the Klebergs who own the King Ranch and other investments, the Laird-Norton families who own several large companies, the Rockefellers who have many investments—have many family owners, all with different stakes in different entities.

Some method needs to be found to form this large number of people into a structure that fairly represents each group but also is a more manageable number to guide the assets. The "textbook" answer to this issue is simply to have people run in an at-large election. However, in dynasties one typically finds that the various branches of the family have organized themselves into quasi-political structures with their own built-in dynamics and expectations. Different branches have different numbers of people, and often different amounts of ownership.

Dynasties often have to overcome a legacy of paternalism. They were organized by the founder into trusts and other entities that provided for family heirs to be "taken care of" by family or nonfamily trustees. Over time, factions of the family grow frustrated with the lack of self-determination. A family may have a tradition of choosing a single family leader from each generation, and if the leader is widely accepted, he or she can manage the family business. But, as in the American Revolution, the family owners may become frustrated with the rule of a leader or trustee, and begin to look to "exercise their rights," which usually means more say in major decisions. They may question the family's direction or financial decisions and threaten litigation. This is especially likely if there are several family branches with no tradition of working together. For example, Leonard Shoen, founder of U-Haul, had five wives and five different families. When he gifted his ownership to the next generation without instructions on how it was to be administered or by whom, he set the stage for a continual state of conflict, which eventually led to one of his sons leading a board coup and ousting him from leadership.

Many times, a family branch that is not as involved feels as though an inside group has taken unfair advantage of the family business by reaping greater benefits for its own branch. And, often, this is actually true. One branch of the family may have a disproportionate number of senior-level positions in the company and perhaps the company has never paid dividends to family owners and other branches. This kind of situation can easily lead to a perception of unfairness. Some members of the Pritzker family resented the tremendous fees paid to the trio of family leaders, and also objected to some of the transfers between trusts.

Balancing Entitlement, Responsibility, and Accountability

As a dynasty grows, many family members may have little training or understanding of their complex holdings. Having been born into money, they may also expect that their financial support will continue. The sense of cause and effect between management of their assets and returns is not inherited; it must be developed. So, each new family owner must develop a sense of fiduciary responsibility, an understanding of his or her role, a realistic expectation of return, an understanding of risk, and be willing to be part of relevant decisions. A strong sense of entitlement usually leads to unrealistic expectations and conflict with reality.

The issue is to teach new stakeholders how to be responsible owners and their roles in various family entities. How do they get more involved? What are their responsibilities? What can they do, and expect, and what can they not? These issues are often poorly understood, leading to conflict, misunderstanding, and even legal action based on poor information. Sometimes, owners have unrealistic or impractical suggestions, or poor advisors, that lead to conflict with other groups.

The Ahlstrom family in Finland came to grips with a number of these issues to further the success of their 151-year-old multibillion dollar holding company (Magretta, 1998). They had embarked on an ambitious program to transform the family governance structure and rejuvenate the business. They committed to a strong program of shareholder education and solicited the help of family business advisors to assist them. Unfortunately, something seemed to go awry along the way and a strong conflict developed with the family, leading to a change of family leadership. A family is not always able to remain unified or together.

Members of wealthy families are usually concerned that their family wealth not "spoil" their children (see Dashew, 2002 and Goldbart, Jaffe, & DiFuria, 2003 for further information on this topic). Yet their children, growing up with the privilege and entitlement of their wealth, find it difficult to develop a sense of responsibility to work to expand the family's portfolio, or even a sense that such a task is worth doing. The family must find ways to develop values, personal responsibility, and commitment with socially useful activities. Some family members have an ambition to go beyond the achievements of their elders, as the young Donald Trump felt, or want to make it on their own in a different field, as Nelson Rockefeller or his nephew Jay did when they went into politics.

The dynasty cannot just assume that family members will grow up and take responsibility for the family's wealth. They must create a clear value system for family members concerning what is expected, and then provide opportunities to learn the skills of good ownership and management, regardless of the nature of the asset.

Integrating Structures

The ultimate challenge for a dynasty is to create a governance structure that properly represents all the needs of family owners and effectively delegates management to various entities. Governance defines vehicles to address group issues, provide focus and cohesion, and make it easier for managers to deal with owners and vice versa. It represents both a personal and a financial endeavor. The personal values, expectations, interests, concerns, and feelings of each family member are the basis of the foundation. They provide clarity and consistency that prenegotiates areas of potential conflict, creates a basis for effective wealth transfer, and leads to financial success for generations to come.

Governance structures must perform many functions for the family. Family members want answers to their questions, and they are quick to judge and react rather than understand. Family members may be used to power and authority, and have strong expectations that sometimes must be tempered or limited. They often lack perspective or understanding of the structure or history of their ventures. For each generation, the governance structures and agreements have to respond to the specific needs of family members.

We have found that the "Businesses of the Family" and the "Business of the Family" must be represented with clear structures, agreements, policies, and activities. There needs to be a core structure that governs the family as well as the business entities. Families who have created effective governance have evolved complex arrangements that create multiple core groups that represent various aspects of family and business interests. They also create a set of agreements that state principles, offer guidelines for avoiding conflict, and offer integrating direction for all the diverse entities controlled by the family. Below we discuss two models that correspond to the two types of family dynasty we outlined earlier in the article.

Governance Structure for Type 1 Family Dynasties

Earlier we said one direction the family business might evolve to is to go public or become quite large with layers of professional management. Although it is not always true, most of the time in this case the business is organized as a corporate entity with shareholders and a board of directors.

Ownership oversight of the corporation is accomplished by an independent board. An effective board can be a key business resource for successful operations, especially in crisis. Owners are represented on this board because there are usually too many of them and they may not all have the requisite skills to be active participants. This division becomes permeable because, in practice, some operating managers are owners and may be members of the oversight group. However, good practice is that this group contains nonmanaging participants whose only role is to represent the owners.

We suggest that in addition to the business board, a dynastic family needs another group to guide its efforts—the family council. Effective governance of even the most complex entities is a blend of interactions between family and business structures. We will look at each of these structures in turn.

When a family becomes a dynasty, its will can no longer be informal. Many dynasties struggle because small groups try to devise legal agreements to define the family's will, or because the agreements are ambiguous, unclear, or unsuited for present realities. The issues for the family are often not so much about good or prudent business practices, but about the values, purposes, and understandings about the roles of individual family members. These cannot really be decided by a board alone; the family must organize itself more formally to express itself, as an adjunct to the role of a board.

A family council must have some way to represent the special interests of the family owners separate from the family nonowners—an ownership group or family assembly (Lansberg, 1999). The ownership group is primarily responsible for the family's role and participation in the composition, effectiveness, and functioning of the board of directors. This may range from a strong to a relatively weak influence depending on the situation. This group is also responsible for communicating to the board the broadly stated wishes of the family. These two groups are not entirely separate. However, the family council can be more loosely defined, and have more flexibility about what it does, than the more formal ownership group.

The family council grows and evolves as the family grows. It might start as a council of siblings, meeting with the family matriarch and patriarch to look at issues of succession into the second generation. It can even contain spouses of each sibling. By the third generation, however, as the numbers grow, the council grows to the point where it has to become representative. When numbers go above a dozen, all-family membership is called into question.

Does a council have all family owners meet in a large "town meeting," do individual family branches form their own councils, or does the council create an executive or steering committee to represent all the owners, a sort of "family board"? Some dynastic families have created family councils with each of these forms, and they all seem to have similar outcomes—a family has a formal method to give voice to the family-oriented concerns of shareholders, and a process to mediate the complex preferences and cross-currents that make up such families, while ensuring effective continuity and profitability of the core businesses.

Fourth or later generations may have scores of family branches and hundreds of members. How does the family council focus and govern family issues? At a certain point, the first shift is for the council to become representative of the various branches. There are several options for the whole family at this time. One option is for each branch to have its own council, with all family members participating and sending issues and concerns to the full council. A second possibility is for a large family to meet as a group. Something like the annual meeting of a company, the group can also address more personal issues of the family. It is not a group of strangers, after all, but a group that shares ties to a founder.

Another evolutionary step is for the family to create several taskforces across branches under the family council umbrella. They can include a group focusing on family communication, on business development, on family education, or on running the annual family meeting. There is often a several-day gathering, at a family retreat setting, where the entire family can come together, including all family members, children, and spouses. This family retreat is a place for fun, for the family members to connect informally, and for business to be conducted. These can be quite elaborate events, occurring every year or two.

A good example of the subtle difference between the roles of the family council and the board is the recent naming of fourth-generation heir William (Bill) Clay Ford as CEO of Ford, and the firing of outside CEO Jaques Nasser. The Ford family, which controls a majority of the voting stock for major board decisions, had grown dissatisfied with Nasser's leadership, just as they had grown dissatisfied with Lee Iacocca a generation before. The family made the decision to remove him and support Bill for the CEO position. They then made this shift through the board. In other situations, such as one involving Nordstrom, the board, with its outside, nonfamily directors, was asked to stand in and help the family decide the difficult issue of succession by assessing the capability and suitability of family heirs. The point is that the line between the board and the family council is fluid and dependent on the nature of the family and the context.

This can be contrasted with the experience of the many generations of the Dupont family. For several generations, the family controlled the company and had family members in key management positions. For the past two generations, control has passed from the family to nonfamily owners and managers, though the many family branches still own a sizeable percentage of the stock. This occurred in part because the family did not have any clear structures to define, focus, and exercise its collective will over the company. Its ownership was still financially rewarding, but the family's power, by not being used, did not continue.

Governance Structure for Type 2 Family Dynasties

The second evolutionary direction we noted earlier—when the family has sold its core business and assembles a portfolio of investments—leads to a different set of integrating structures, but with the same purposes. The major structure often takes the form of a family holding company. In this case, the family council is the other major structure and functions the same as in the Type 1 governance structure.

A family holding company has oversight responsibility for a number of assets. These may include vacation property, philanthropic ventures such as a family foundation, and several financial vehicles or companies. Each may have its own governance vehicle. Taken as a whole, they should represent the long-term direction of the family and its dreams for the future. The guiding question in the determination of direction is: "What is the best use of our wealth?" If the family answer is to create joy and help people achieve their dreams, then a wide door opens and it expands the scope of the possible beyond profit. The key to making this work is the same discipline be applied to the advancement of say, a philanthropic project, as would be applied to a for-profit asset.

DeVisscher (2002) points out that a holding company structure allows the family greater liquidity, the ability to borrow and leverage various assets, and share ownership of many entities. The holding company is managed like any corporate conglomerate.

The Family Holding Company model may be diagrammed as shown in Figure 1.

One model for the shift from informal family governance to formal establishment of a family holding company is exemplified by the recent experience of Dabur India Ltd. (Jaffe, Rosenthal, & Gupta, 2002). The fourth generation of the Burman family had owned and controlled Dabur India. Each generation had a family chairman of the board, and recently they had hired a

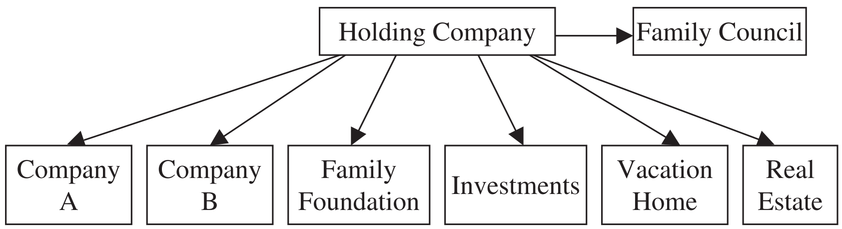

Figure 1 The Family Holding Company.

nonfamily member as CEO. But the growing fourth generation had more talented members than could be accommodated in the company, and the family desired to diversify its investments.

It created a conceptual model for the shift. From one large central circle, representing the company, connected to all the family members, the family wanted to shift to a model where Dabur was one of the many investments and businesses owned and operated by the family. It adopted several methods to move in this direction. One was to remove family members from the company payroll, including those family members who worked there! All family members would receive a distribution from the family holding company, with compensation by seniority, but if they worked outside, they would in effect get two paychecks. This offered an incentive to move the family in other directions. Family members are starting several new ventures, which the family supports financially.

The Family Office

In the case of either of the governance structures, the family may elect to create a family office. The family office is the administrative structure that provides services to family members and monitors family investments. It may manage money, offer tax and legal services, and support each family member in financial affairs. It may provide individual guidance about investment and other financial matters, like obtaining a mortgage or home. It may administer family recreational assets, like vacation property, or even maintain a family website. It is an expensive, but useful, service for a complex and wealthy family. It may provide a focus and center for the family and a source of shared identity. It may also be a source of controversy. Nonfamily office managers often feel like they are working for a score of demanding bosses, and that they have to be available to any family member at a moment's notice.

If the family commits to greater growth and returns than previously existed in order to address the issues of the expansion of the heir/beneficiary base, then a more pro-active business investment capability may need to be added to the family office. This bumps up against the issue that this growth will require a more substantial investment in resources than had previously been the case. Typically, a family office is funded from the individual moneys of the heirs/beneficiaries. This dynamic sets up a motivation to hold these expenses to the minimum; thus these offices are typically fairly "lean and mean" and are not staffed for growth.

A family wanting to be more pro-active can make several choices. It can hire a professional manager to grow each asset class, as well as someone to oversee the entire process. This person becomes a "manager of the managers" or the "quarterback of the portfolio." Unfortunately, this approach is expensive because the market value of these people is high. Alternatively, some families have "partnered up" with a person who is successful with a particular asset class. In this case, the family brings a good working relationship and is a trusted source of capital. This is probably a more favored approach, but it is difficult to find these partners and one must start slow and let the relationship grow and develop over time. Even if this approach is taken, the family needs to make a substantial investment in a quarterback or manager of the managers to oversee this process.

A recent trend has been for several families to work together in a multifamily office or for an outside group to manage the family's office as a private contractor. This has financial advantages, but such offices most often assume management functions primarily in the financial area. They usually limit the services to family members, and are not involved in family governance. Only rarely are family members involved in managing such offices, and they usually are family members from the family who founded that particular office.

The governance structures that a holding company makes possible offer opportunities for family members at different levels. The family leaders can be on the board of the holding company, which can shift assets and capital, and seek further advantages for the family. Individual family leaders can be involved on the boards, or in management, of each individual company or philanthropic venture.

The Ayala Corporation is a holding company owned by the Ayala family of the Philippines for seven generations. Although many of its constituent companies are public, the current family CEO Jaime Zobel (Gibson, 2002) notes several reasons that family control over many companies has clear advantages. First, he notes that the family can be a source of new capital for new ventures, which can help build the infrastructure to add value to the community, as well as the family. The family may indeed be the only course of capital for some ventures. Second, the family leadership can be patient and invest for the long haul. The family created the holding company in 1976, when the company went public. The family chooses who will represent them in the company, and has an unwritten rule that family members do not invest in any venture that competes with one of their own.

Family Participation

The opportunity for a family member to take leadership and find employment within the family ventures is an opportunity for dynastic families. As the scope and complexity of their holdings grow, the need for professional standards and accountability grows. Many family fortunes have been depleted by promoting incompetent family members to leadership based only on family status, not commitment or capability.

A dynasty can often find multiple opportunities for family members as they develop their careers and capabilities. Since they are often wealthy enough to not "have" to work, they can choose paths that provide satisfaction and development. Family members often find themselves pursuing careers of philanthropy or the arts. They find ways to contribute to the family, and feel comfortable leaving leadership of the business aspects of the family to designated leaders.

Some larger families have many elements of family leadership and leadership development. The Pitcairn family, for example, offers a seminar to young family members (of college age or when they elect to attend) and new spouses to learn about the family holdings and the basics of financial responsibility. This seminar lasts several weeks and every family member is encouraged to attend.

Attaining a post on a board of directors is a key leadership position, and many families have a series of ways for family members to learn and take up leadership. The Pitcairn family has an auxiliary board, which is a board for the family council, that conducts family retreats and educational activities. It is a way for family members to take initiative and show leadership. One member of the fifth generation, after being on this board, was eventually elected to the board of directors, the first member of his generation, joining the fourth-generation leadership group.

Conflict of Interest

In many family holding company situations, one or more members of the family are responsible for the guiding of the assets, perhaps with professional help. In some cases, the family members who are responsible for managing the assets may have closely related business interests as well. When this occurs, issues of conflict of interest between these individuals and the other family member owners may arise. In one well-known example, patriarch P. S. Dupont, as chair of the company, was informed that his uncle wanted to sell his significant stock in the company. Claiming that he assumed that his cousins were not interested in pursuing his offer, Dupont bought the stock personally, along with his brothers. This was an astoundingly profitable purchase, and it led to a family lawsuit and estrangement of some family branches from each other.

Another example might be when the family owns a piece of land and wants to sell it and another family member has a real estate company. It may be an issue to the owners that this person receives not only his or her share from the sale of the land, but also gets a commission on the sale.

A related issue is when the family manager is exposed to business opportunities as a function of his or her position. The question is: "Can he or she parallel invest in these deals as well?" These issues are always difficult, but the potential for misunderstanding is made less likely if the family owners arrange for transparency, disclosure, and formal agreement about such deals.

Summary: The Future of Family Dynasties

The *Financial Times* recently ran a series of articles chronicling the unique role of longstanding family dynasties in the business life and development of the world. The series cited the great influence that some families have attained by amassing economic and social, and often political and moral, power in society. By obtaining access to capital with a long-term perspective to provide for succeeding generations, they provide a balancing force for the short-term perspective of financial markets and institutions.

For every dynasty that succeeds in sustaining and developing wealth over several generations, there are others who lose their fortunes, or who fragment them so that instead of being wealthy, the heirs are merely affluent. To sustain a family dynasty over generations, we have suggested that the family faces certain predictable challenges and must respond by creating governance structures that respond to both family and wealth management issues. There are some key features of the structures that they create—the existence of family councils and boards, for example—but in fact each successful family creates an often unique and special set of institutions, depending on its family style, values, and type of financial and business structure.

We feel that in an era where business and financial entities have shown that they can get out of control and lose their social and moral bearings, the influence and existence of family dynasties can help to give a human face to business and financial activities. Although not all families have a deep sense of mission and values, many family dynasties have a set of values that underlie their diverse business and philanthropic activities. We hope that this article can support the positive growth and development of such dynasties.

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