The Wharton School
University of Pennsylvania
Fall 2014

Management 266/766
Family Wealth:
The Behavioral Management of Sustainable Family Enterprises
Mondays, 3-6 pm, JMHH 340

Prof. Eric J. Schoenberg — Office: Vance Hall 422
E-mail erics@post.harvard.edu — Off Tel 215-746-6464 [no msgs]
Office hours: Mondays 2-3 and by appointment

Course description

Families play an important but relatively unstudied role in economic decision making. While family-controlled businesses are a central feature of the global corporate landscape, dominating many markets, and single- and multi-family offices control trillions of dollars of financial assets, the motivations which result in the creation of cohesive family fortunes are not well understood; in fact, the dominant economic theory regarding capital accumulation, the "lifecycle" hypothesis, assumes that individuals want to consume all the wealth available to them in their own lifetime. From this perspective, the dissipation of wealth by spendthrift heirs (the "shirtsleeves to shirtsleeves in three generations" phenomenon) is thoroughly rational; it is the behavior of the wealth creators which is puzzling.

This class will examine in detail the causes and consequences of the creation of family fortunes. While business schools have traditionally focused on individual decision makers or on organizations composed of unrelated, self-interested actors, we will explore issues related to the interplay of family dynamics and economic decision making based on research spanning psychology, economics, sociology, anthropology, and biology.

In particular, we will discuss psychological characteristics associated with the typically entrepreneurial creators of family wealth; with their children, whose childhood development takes place in the context of growing businesses and accumulating wealth; and with their grandchildren and beyond, whose childhood development occurs in the context of established and often very public wealth. We will apply this material to discussions of topics related to both operating businesses (such as governance and ownership transitions) and collective management of financial assets (such as the use of trusts and philanthropic foundations).

Who should take this class?

While this class will be particularly relevant to individuals aspiring to create their own family fortunes or whose ancestors have already done so, it will also be useful for individuals interested in foundation management, non-profit fund-raising or businesses catering to the very wealthy such as asset management and luxury retail.

Note that while this class will address some of the same topics as Management 833: Strategies and Practices of Family-Controlled Companies, this class' focus will be on behavioral aspects of family dynamics in a range of decision settings, such as parenting, financial and philanthropic decision making, rather than on management of an operating business per se.

Course structure

The class will consist of a mixture of lectures, case discussions and class exercises, organized into three sections focused on the first, second, and subsequent generations of a family, respectively. We will examine both normative theories of behavior (i.e. how people should behave given certain assumptions about their motivations) and descriptive theories (i.e. how people actually do behave in a given situation), with a focus on prescriptive theories (i.e. how should *I* behave in a given situation?). In Part 1, we will focus on the idea that understanding decisions in a familial context requires acknowledging that humans are driven by a far more complex set of motivations than profit (or consumption) maximization. In Part II, we will examine the reasons why G1 chooses to establish a family enterprise, and why G2 agrees to participate. In Part III, we will investigate issues arising from the integration of succeeding generations into the family enterprise, and why and how families remain coherent entities despite the inevitable lessening of personal ties through successive generations.

Readings

In addition to a course pack, there are two required texts (available in hard copy at the bookstore or in electronic copy at Amazon):

Hughes Jr, James E. *Family Wealth: Keeping It in the Family--How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations*. Bloomberg Press, 2010 (2nd Edition). http://www.amazon.com/Family-Wealth-Family--How-Intellectual-Generations-ebook/dp/B003O86FB8/ref=sr_1_1?ie=UTF8&qid=1409144146&sr=8-1&keywords=family+wealth

Conniff, Richard. *The Natural History of the Rich: A Field Guide*. WW Norton & Company, 2003. http://www.amazon.com/Natural-History-Rich-Field-Guide-ebook/dp/B0089MQ3MA/ref=sr_1_1?ie=UTF8&qid=1409144365&sr=8-1&keywords=natural+history+of+the+rich

Other readings accessible via the internet are listed as hotlinks in the syllabus below. Finally, a small number of readings will be distributed in PDF via e-mail.

Grading

Class Participation (25%). The class participation grade will be determined by

- Class attendance and the quality of the student's involvement in the class's activities and discussions (20%). While missing many classes will ensure a poor participation grade, coming to all classes will not guarantee you a good one; you will not receive a high participation grade unless you make a positive contribution to class discussions. There are two class surveys (available via Canvas) whose due dates are Sept 12 and 26; your answers will not be graded (most of the questions have no "correct" answers anyway!) but timely completion of the surveys will be a factor in your class participation grade.
- Participation in the in-class and out-of-class exercises (5%), including
  - submitting two suggested exam questions no later than the beginning of class on Dec 1
  - during the course of the semester, students must submit at least one newspaper article related to economic decision making in a family context; the best submissions will be used for brief class discussions

Written Assignments (35%). Students must submit written analyses *before* the start of class for SEVEN out of the following nine in-class case discussions (i.e you can skip two of them). There is no minimum required length as long as you address each of the questions posed in the syllabus listings below, but there is a maximum allowed length of 750 words.

1. Sept. 15: Poza (2007), "Reliance Industries"
2. Sept. 22: Krakauer (1996), "Into Thin Air"
3. Sept. 29: Hansmann (1990), "Why do Universities Have Endowments?"
4. Oct. 6: Creating a Family Business: Rogers Family Enterprises
5. Oct. 13: Precista tools AG (A)
6. Oct. 20: New York Times
7. Oct. 27: Pritzker Family Enterprise
8. Nov. 10: Scott Family Enterprises (A)
9. Dec. 1: Panero (2011), "Outsmarting Albert Barnes"

Final Exam (40%). There will be an open-book, open-notes final exam given during the regular exam period. No later than the beginning of class on Dec 1, students must submit 2 exam questions suitable for use in an all essay exam. I will then compile and distribute a list of approximately 20 potential exam questions. The final will consist of a subset of these questions with some choice, e.g., answer 3 of these 5 questions.

A limited number of students can write up and present in class a case analysis of decision-making in their own families in lieu of taking a final exam. Papers should be 10-15 pages and presentations should be 10-15 minutes. You may focus on a specific issue or set of issues, or on overall decision making, but you must address the following questions.

1. What are the motivations of the relevant actors, i.e. what goals do they want to achieve or outcomes do they want to avoid? How would they define risk?
2. What course concepts are relevant to a descriptive analysis of the decision process? What course concepts are relevant to a prescriptive analysis?

One class period has been set aside for presentations at the end of the semester. If there are more students interested in this option than class time available, slots will be allocated on a first-come, first-serve basis, so interested students should e-mail me ASAP.

Family Wealth Summary Course Outline			
Session	Date	Topic	Assignment due
1	8-Sep	Introduction: the puzzles of intergenerational wealth	
2	8-Sep	Why do people accumulate wealth?	
3	15-Sep	What personality traits are associated with accumulating wealth?	
4	15-Sep	Reliance Case	Reliance Industries (A)
5	22-Sep	How do families think about risk?	
6	22-Sep	Risk: Into Thin Air Case	Into Thin Air
7	29-Sep	How do families think about time?	Why do universities have endowments
8	29-Sep	Who is our family?	
9	6-Oct	Why do families stay together vs. fall apart? (Part 1: short term)	
10	6-Oct	Why start or join a family enterprise?	Rogers Family Enterprises
11	13-Oct	What specific challenges do wealthy parents confront?	
12	13-Oct	Parenting: Precista Case	Precista Tools (A)
13	20-Oct	Trust and "trusts": New York Times case	New York Times
14	20-Oct	What role does fairness play in families?	
15	27-Oct	Fairness: Pritzker Family Enterprise	Pritzker Family Enterprise
16	27-Oct	Guest speakers: Robert Adelson and TBA	
17	3-Nov	Is it good to grow up wealthy?	
18	3-Nov	Why do families stay together vs. fall apart? (Part 2: long term)	
19	10-Nov	Governance	
20	10-Nov	Governance: Scott case	Scott Family Enterprises (A)
21	17-Nov	How should you manage family financial assets? (Part 1: what to do -- big picture)	
22	17-Nov	How should you manage family financial assets? (Part 2: what not to do)	
23	24-Nov	How should you manage family financial assets? (Part 3: what to do -- details)	
24	24-Nov	Why, and how, do the rich give away money?	
25	1-Dec	Preserving a Legacy: Barnes Case	Outsmarting Albert Barnes
26	1-Dec	Guest Speakers: John MacIntosh and Maryann Fernandez	2 Exam Questions
27	8-Dec	Optional case presentations	
28	8-Dec	What issues does dynastic wealth create in the modern world?	
29	TBD	Final exam	

Detailed course outline

Please note that all readings listed are required. Supplemental readings expanding on these materials are listed in a document available on Canvas.

Session 1: Introduction: the puzzles of intergenerational wealth

Required Reading

Hughes (2004), "Long Term Wealth Preservation as a Question of Family Governance" (Chapter 1 of Family Wealth)

Hartocollis (2013), "The Two Wills of the Heiress Huguette Clark"
http://www.nytimes.com/2013/09/15/nyregion/the-two-wills-of-the-heiress-huguette-clark.html?pagewanted=all&_r=0

No later than Sept 12, students should complete Survey 1.

Part I: G1

Session 2: Why accumulate capital?

Required Reading

Smith (1759), "Of the origin of Ambition, and of the distinction of Ranks" (parts of Part I, Section 3, Chapter 2 of Theory of Moral Sentiments)

Carroll (2000), "Why Do the Rich Save So Much?" (Chapter from Does Atlas Shrug?) [You can skip Sections 4.1 and 5]
http://www.econ2.jhu.edu/people/ccarroll/why.pdf

Coniff (2002), "Who's in Charge Here?" (Chapter 4 of The Natural History of the Rich) [pg. 72-93 only, you can skip the section on "Verbal Phallocarps"]

Session 3: What personality traits are associated with accumulating wealth?

Required Reading

Shance, Locke, and Collins (2003), "Entrepreneurial motivation"
https://faculty.utep.edu/Portals/167/52%20Entrepreneurial%20Motivation.pdf

Postrel (2001), "A Vital Economy is One that Suffers Fools Gladly"
http://www.nytimes.com/2001/09/06/business/06SCEN.html

Session 4: Reliance Case

Prepare for Class Discussion

Poza (2007), "Reliance Industries: From Conflict to Continuity Part A" (Case 14 of Family Business)

1. What were Dhirubhai Ambani's motivations, i.e. what goals did he want to achieve or outcomes did he want to avoid?
2. Given these goals, what actions would you have advised him to take?
3. Do you think your proposed course of action would have been more or less risky than the actions he did take?

Session 5: How do families think about risk?

Required Reading

Kahneman and Tversky (1984), "Choices, Values, and Frames"
http://web.missouri.edu/~segerti/capstone/choicesvalues.pdf

Coniff (2002), "Why Do Rich People Take Such Risks?" (Chapter 7 of The Natural History of the Rich)

Session 6: Risk: Into Thin Air Case

Prepare for Class Discussion

Krakauer (1996), "Into Thin Air" (Outside magazine article, *not* book)

1. What are the important characteristics of the decision-making environment on Mt. Everest?
2. For each of the following individuals, identify
   a. What are their motivations, i.e. what goals do they want to achieve or outcomes do they want to avoid?
   b. How would they define risk?
   - Rob Hall
   - Doug Hansen
   - Lobsang Jangbu

No later than Sept 26, students should complete Survey 2

Session 7: How do families think about time?

Prepare for Class Discussion

Hansmann (1990), "Why do universities have endowments" (You can skip pages 17-32 (i.e. you do not need to read from Section IV(C) through Section IX)
http://www.law.yale.edu/documents/pdf/Faculty/Hansmann_why_do_universities_have_endowments.pdf

1. In Section III, Hansmann notes that most universities utilize a spending rule that attempts to spend only the real rate of return on the endowment; i.e. that aims at preserving the inflation-adjusted purchasing power of endowment funds indefinitely, which implies that the intertemporal discount rate is equal to the market rate of return on the endowment. Do you think this is a good policy for universities?
2. Do you think this is a good policy objective for a trust family members as well.? If not, what spending rule would you propose?

Session 8: Who is our family?

Required Reading

Fehr and Fischbacher (2002), "Why social preferences matter–the impact of non-selfish motives on competition, cooperation and incentives" http://www.econ.uzh.ch/faculty/fehr/publications/EJ-Paper.pdf

Session 9: Why do families stay together vs. fall apart? (Part 1: short term)

Required Reading

Wilson and Wilson (2007). "Evolution: Survival of the selfless" http://evolution.binghamton.edu/dswilson/wp-content/uploads/2010/01/New-Scientist.pdf

Part II: G2

Session 10: Why start or join a family enterprise?

Prepare for Class Discussion

Creating a Family Business: The Genesis of Rogers Family Enterprises

1. Suppose that Steven and Akilah were not related but simply business associates planning a new venture together. Which of these options would you recommend for the ownership of the new company? Why?
    a. Rogers owns the entire company and employs Akilah
    b. Rogers owns 60% and Akilah owns 40%
    c. Rogers owns 50% and Akilah owns 50%
    d. Rogers owns 40% and Akilah owns 60%
    e. Akilah owns the entire company, Steven provides a loan
2. Given that they are related, how would your advice change? Why?

Required Reading

Zelizer (2009), "Intimacy in Economic Organizations" [pp 23-29 and 38-41 only]

Session 11: What specific challenges do wealthy parents confront?

Required Reading

Hausner (2005), "How Affluence Helps – And Hinders" (Chapter 1 of Children of Paradi$e)

Pittman (1985), "Children of the Rich"

van den Berg and Fawcett (2013), "Evolution and Bad Boyfriends" http://www.nytimes.com/2013/10/13/opinion/sunday/evolution-and-bad-boyfriends.html

Session 12: Precista Case

Prepare for Class Discussion

Precista Tools AG (A)

1. Why do you think that Franz Huebel failed to inform Greta that he was hiring Peter? Should he have? How?
2. Why do you think Franz says he needs to ask Sophie before talking to Dr. Tappe? What advice do you think Sophie would give him?
3. How much of Franz's current behavior do you think is due to Greta being a daughter rather than a son? How much is due to her being the youngest child?
4. What do you think Greta should do?

Session 13: Trust and "trusts": New York Times case

Prepare for Class Discussion

Villalonga and Hartman (2008), The New York Times Co.

1. Why did Adolph Ochs put 50.1% of the company's common stock in trust in 1935? Why did he include his nephew Julius Adler as a trustee even though neither Adler nor his descendants were to be beneficiaries of the trust? Given that "due to the terms of the trust… To meet his personal expenses, Punch [Sulzberger] often borrowed money from his parents and… sisters", do you think this trust was a good idea?

2. If the Sulzberger siblings were “unanimous in their desire to preserve family control”, why, when the trust terms were revised in 1997, did they agree to change from a requirement of unanimous agreement to 75% agreement?
3. Morgan Stanley Investment Management became a NYT shareholder in 1996, when it was presumably well aware of the two-tier share structure. Why did they subsequently decide that this structure was unacceptable? Leaving aside any legal issues, do you think the two-tier structure is better or worse from a long-term investors’ perspective?

Required Reading

Graham, Donald (2007) “The Gray Lady's Virtue” http://online.wsj.com/news/articles/SB117728391033378436

Karnitschnig, Ellison and Pulliam (2007), “Bancroft Wrangling Intensifies: As Bid Deadline Looms For Dow Jones, Splits In the Family Remain” http://online.wsj.com/news/articles/SB118555411000280438

Session 14: What role does fairness play in families?

Required Reading

Tyler (2004), "Procedural Justice"

Light and McGarry (2004), “Why Parents Play Favorites: Explanations for Unequal Bequests“
http://www.econ.ohio-state.edu/pdf/alight/wp03-01.pdf

Session 15: Pritzker Family Enterprise

Prepare for Class Discussion

Angus, Paticia (2014), Pritzker Family Enterprise: A Family Governance Case Study

Also read a brief excerpt from Chandler and Bergen (2005), “Inside the Pritzker family feud”

1. What might Tom Pritzker have done differently to avoid being sued by his cousins Liesel and Matthew?
2. The core of the dispute revolves around the “promotes” provided to family members working directly on deals. Suggest how such disputes might be resolved. Address both distributional and procedural concerns.
3. Should Jay Pritzker’s desires to keep the family assets intact have been respected? Is there any way unity might now be restored? What steps might help accomplish this goal?

Session 16: Guest speakers: Robert Adelson and TBA

Robert Adelson, Managing Partner, Osage Partners

Bob founded Osage Partners in 1990 and has built a track record as a top-performing venture investor. He is a native of Tulsa, Oklahoma, where he is a partner in a fourth generation family business. Prior to founding Osage, Bob clerked with the honorable Walter K. Stapleton, U.S. Third Circuit Court of Appeals, and practiced corporate law at the Philadelphia law firm of Wolf, Block, Schorr & Solis-Cohen. He is a graduate of The Yale Law School, where he was an editor of The Yale Law Journal, and of Yale College, from which he graduated summa cum laude. Bob is a trustee of Thomas Jefferson University Hospital, Thomas Jefferson University, and Jefferson Health System. Bob currently serves on the boards of SevOne, Halfpenny Technologies and Collections Marketing Center.

Part III: G3+

Session 17: Is it good to grow up wealthy?

Required Reading

Loewenstein and Schkade (1999). "Wouldn’t it be nice? Predicting future feelings" http://elsa.berkeley.edu/eml/nsf97/loewenstein.pdf

Schoenberg (2006), “When Too Much is Not Enough: Inherited Wealth and the Psychological Meaning of Money”

Session 18: Why do families stay together vs. fall apart? (Part 2: long term)

Required Reading

Haidt (2012), "The hive switch" (Chapter 10 of The Righteous Mind: Why Good People are Divided by Politics and Religion)

Hughes (2004), "Ritual" and "The Role of Aunts and Uncles" (Chapters 3 and 16 of Family Wealth)

Session 19: Governance

Required Reading

Angus (2005), "The family governance pyramid: from principles to practice" http://angusadvisorygroup.com/pdfs/families_resources/pyramid.pdf

Hughes (2004), "The Role of Elders" (Chapter 18 of Family Wealth)

Branch (2010), "Doubling Down: Many Players Would Benefit From Going All Out on Second Serves" http://www.nytimes.com/2010/08/30/sports/tennis/30serving.html?pagewanted=all&_r=1&

Session 20: Governance: Scott case

Prepare for Class Discussion

Scott Family Enterprises (A)

"Over the years some family branches bought or sold shares from or to each other. They debated whether decisions should be made by one share, one vote, favoring family branches with a higher percentage of ownership, or whether it should be one person, one vote, favoring larger family branches. Finally the Scotts decided to embrace a "one family" vision and, in that spirit the family adopted a one-person, one-vote process that assumed that each individual member would vote, in all business and family matters, in the best interest of the whole family regardless of family branch of origin."

1. Do you agree with this decision to allocate voting rights based on equality rather than equity?
2. Give a specific example of what you think it would mean to vote in "the best interest of the whole family regardless of family branch of origin?" How realistic was this assumption? What might they do to increase the likelihood of this occurring?
3. What do you think was the motivation of the "third-generation Scott family member" who wrote the letter which opens the case? How should the FC respond to it?
4. The youngest member of G3 is younger than several members of G4, yet is included in the G3 discussion group when the others are not. Do you think this is wise?

Session 21: How should you manage family financial assets? (Part 1: what to do -- big picture)

Required Reading

Chhabra (2005), "Beyond Markowitz: A Comprehensive Wealth Allocation Framework for Individual Investors" http://www.regions.com/virtualDocuments/BeyondMarkowitz_WealthManagement.pdf

DeLong and Magin (2009), "The U.S. Equity Return Premium: Past, Present, and Future"

http://www.j-bradford-delong.net/2008_pdf/20080228_jep_submit.pdf

Session 22: How should you manage family financial assets? (Part 2: what not to do)

Required Reading

Keynes (1936), "The State of Long Term Expectations" (Chapter 12 from The General Theory of Employment) https://www.marxists.org/reference/subject/economics/keynes/general-theory/ch12.htm

Schoenberg (2008), "Family Value Investing"

Session 23: How should you manage family financial assets? (Part 3: what to do -- details)

Required Reading

Hughes (2004), "Investor Allocation" (Chapter 5 of Family Wealth)

Cassidy, John (2014), "How Do Hedge Funds Get Away With It? Eight Theories"

Strike (2013), "The Most Trusted Advisor and the Subtle Advice Process in Family Firms" http://ffipractitioner.files.wordpress.com/2013/09/vanessa-strike-the-most-trusted-advisor-and-the-subtle-advice-process-in-family-firms.pdf

Cohen (2008), "The Art of the Save, for Goalie and Investor" http://www.nytimes.com/2008/03/01/business/01kick.html?_r=0&adxnnl=1&pagewanted=all&adxnnlx=1408809612-w6O2IacRsrN53qFv5TxN1A

Session 24: Why, and how, do the rich give away money?

Required Reading

Stern (2013), "Why the Rich Don't Give to Charity"

Andreoni (2006), "Philanthropy" (Sections 1, 2 and 7)

Coniff (2002), "Take This Gift, Dammit!" (Chapter 5 of The Natural History of the Rich)

Session 25: Preserving a Legacy: Barnes Case

Prepare for Class Discussion

Panero (2011), "Outsmarting Albert Barnes"

1. What were Barnes' motivations, i.e. what goals did he want to achieve or outcomes did he want to avoid? How would he have defined risk?

2. Do you think it was "irrational" for Barnes to have restricted the Foundation's investments after his death to federal, state, and municipal bonds? The article states that this injunction might represent a "a prototypical form of mission-related investment"; do you agree? Do you think this offers lessons for the advisability of mission-related investing in general?
3. The article asserts that "it is difficult to see how Albert Barnes would have ever consented to having his collection removed from Merion," yet this is of course the outcome that finally occurred. What changes in governances might he have made to make this outcome loss likely?

Session 26: Guest Speakers: John MacIntosh and Maryann Fernandez

John MacIntosh, Partner. SeaChange Capital Partners

SeaChange Capital Partners is a nonprofit merchant bank whose mission is to enable transactions that increase the impact of nonprofits while offering leveraged funding opportunities for donors.

Prior to joining SeaChange, John was a partner at Warburg Pincus in the global private equity firm's New York, Tokyo, and London offices. At Warburg Pincus, he was responsible for overseeing the firm's expansion into several new international markets and served as a director of 16 companies, public and private. Earlier in his career John worked as a software engineer in Tokyo and a management consultant at Oliver Wyman.

John has a BSE from Princeton University and a MSc in Philosophy and Public Policy from the London School of Economics. He serves on the board of the New York Junior Tennis & Learning, the Credit Committee of the Contact Fund, and is an equity investment advisor to MicroVest Capital Management.

Maryann Fernandez, Founder and President, Philanthropy Indaba

Philanthropy Indaba matches the world's most critical issues to the world's most compelling destinations for a truly transformational experience - creating a new gold standard for meaningful travel.

Maryann has been a creative force in the wealth management and philanthropy arenas for over 14 years. She spent over a decade in the wealth management industry, most notably at Harris Private Bank in Chicago where she was Vice President, Family Education Services, where she oversaw the development and strategic direction of educational events designed to address the issues and opportunities in wealth management. In 2000, Maryann co-founded Shaking the Tree Interactive Productions, an organization that utilizes professional theater to help wealthy families discuss issues around money and interpersonal dynamics. She has also served a strategic consultant to Educate Girls Globally, an organization which utilizes community empowerment and partnerships with Indian state governments to get and keep girls in school. She has provided consulting services to world-renown non-profit, Ashoka, Innovators for the Public, a 30+ year old organization that has funded over 2,500 socialentrepreneurs worldwide. She also helped launch and establish a private network of ultra-affluent philanthropists which included 150+ families.

Session 27: Optional case presentations

Session 28: What issues does dynastic wealth create in the modern world?

Required Reading

Carnegie (1889), "Wealth" (aka "The Gospel of Wealth")
http://www.swarthmore.edu/SocSci/rbannis1/AIH19th/Carnegie.html

Kantor (2013), "Class Is Seen Dividing Harvard Business School"
http://www.nytimes.com/2013/09/10/education/harvard-business-students-see-class-as-divisive-an-issue-as-gender.html?_r=0

Final exam: Date TBA