The Wharton School
University of Pennsylvania
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Management 266/766
Family Wealth:
The Behavioral Management of Sustainable Family Enterprises
Mondays, 3-6 pm, JMHH TBD

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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% of final grade) The class participation grade will be based on both class attendance and the quality of the student's involvement in the class's activities and discussions. 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. In addition, there are two class surveys (found under the "Quizzes" section of Canvas) whose due dates are midnight, Sept 11 and 24; your answers will not be graded (most of the questions have no "correct" answers anyway!) but timely completion of the surveys will be a (minor) factor in your class participation grade.

Written Assignments (50% of final grade) 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 Paper (25% of final grade) For the final paper, students are strongly encouraged, but not required, to apply course materials to do a case analysis of decision-making in their own families. Papers should be 10-15 pages and can either focus on a specific issue or set of issues, or on overall decision making. Since a major goal of this exercise is to improve real-world decision making, the exact format and structure is up to you, but you ought to at least 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?

Students who prefer not to write about their own families may instead respond to the following prompt.

1. You work for a company which advises wealthy individuals and families on estate plans. Your boss informs you that he has the opportunity to make a pitch presentation to Rupert Murdoch on issues related to dividing ownership and control of his media empire among his six children (by three wives). To prepare for the meeting, your boss asks you to prepare a briefing paper for him based on whatever publicly available information you can find on Murdoch and his current plans. In the paper, you should first outline what you believe Murdoch's various objectives to be, and which of them may be in potential conflict, and then use examples from the class (especially the

Ambani, Sulzberger and Bancroft families) to discuss (1) how likely his current plans are to accomplish his objectives, (2) where they might go wrong, and (3) what alternative approaches might be better.

Optional in-class presentation (counts for 2 written assignments) A limited number of students can present in class a case analysis of decision-making in their own families. Presentations should be aimed at 10-15 minutes. 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. Students who have received approval for an in-class presentation only need to submit FIVE written case studies.

Grading Rubric Written assignments in this class rarely if ever have a "correct" answer. Grades therefore are necessarily highly subjective and will be based not on whether we think you are "right" but on whether we think you have presented a compelling argument. Papers will be graded on a 10-point scale calculated by adding together the scores from two 5-point subscales based on the following categories:

1. Organization and presentation: Can the reader understand and follow what you are saying? (5 points)

Is the paper well-organized as a whole? Are the paragraphs well-ordered? Are the sentences easy to comprehend and follow?

2. Analysis and use of class materials: Is the reader likely to be persuaded by what you are saying? (5 points)

Is the logic comprehensible? Is it well-argued? Is it well-supported through use of relevant materials?

Family Wealth Summary Course Outline			
Session	Date	Topic	Assignment due
1	31-Aug	Introduction: the puzzles of intergenerational wealth	
2	31-Aug	Why do people accumulate wealth?	
3	14-Sep	What personality traits are associated with accumulating wealth?	
4	14-Sep	Reliance Case	Reliance Industries (A)
5	21-Sep	How do families think about risk?	
6	21-Sep	Risk: Into Thin Air Case	Into Thin Air
7	28-Sep	How do families think about time?	Why do universities have endowments
8	28-Sep	Who is our family?	
9	5-Oct	Why do families stay together vs. fall apart? (Part 1: short term)	
10	5-Oct	Why start or join a family enterprise?	Rogers Family Enterprises
11	12-Oct	What specific challenges do wealthy parents confront?	
12	12-Oct	Parenting: Precista Case	Precista Tools (A)
13	19-Oct	Trust and "trusts": New York Times case	New York Times
14	19-Oct	What role does fairness play in families?	
15	26-Oct	Fairness: Pritzker Family Enterprise	Pritzker Family Enterprise
16	26-Oct	Guest speaker: Laird Pendleton	
17	2-Nov	Is it good to grow up wealthy?	
18	2-Nov	Why do families stay together vs. fall apart? (Part 2: long term)	
19	9-Nov	Governance	
20	9-Nov	Governance: Scott case	Scott Family Enterprises (A)
21	16-Nov	How should you manage family financial assets? (Part 1: what to do -- big picture)	
22	16-Nov	How should you manage family financial assets? (Part 2: what not to do)	
23	23-Nov	How should you manage family financial assets? (Part 3: what to do -- details)	
24	23-Nov	Why, and how, do the rich give away money?	
25	30-Nov	Preserving a Legacy: Barnes Case	Outsmarting Albert Barnes
26	30-Nov	Guest Speakers: TBD	
27	7-Dec	Optional case presentations	
28	7-Dec	What issues does dynastic wealth create in the modern world?	

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 midnight, Sept 11, students should complete Survey 1, which can be found under the "Quizzes" section of Canvas.

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

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 the actions he took were consistent with his goals? If your answer is no, why do you think he took those actions? If your answer is yes, why do you think the conflict arose?

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 midnight, Sept 25, students should complete Survey 2, which can be found under the "Quizzes" section of Canvas.

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 an intertemporal discount rate of zero (think about it this way: imagine that you were immortal, had no income other than earnings from an

investment portfolio, and considered the lifecycle hypothesis as useful prescriptive advice, i.e. that due to declining marginal utility of wealth, you want to spend equal amounts of your wealth every year. In this scenario, each year you would want to spend an amount exactly equal to the market rate of return on the endowment, which would allow you to spend that amount in perpetuity). Do you think this is a good policy for universities?

2. Do you think this is also a good policy objective for a trust benefitting family members? 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. Was Jay's vision for managing the family fortune after his death realistic? What could he have done differently to increase the chances of his vision being implemented?

2. Much of the dispute revolves around the “promotes” provided to family members working directly on deals (see the excerpt in particular). Suggest how such disputes might be resolved. Address both distributional and procedural concerns.

3. A second dispute revolves around the treatment of Matthew and Liesel Pritzker. How might this aspect of the story been handled differently to avoid litigation?

Session 16: Guest speakers: Laird Pendleton and TBA

Laird P. Pendleton, Co-founder of CCC Alliance and Chairman of the Wharton Global Family Alliance Advisory Board

Laird has over thirty years of experience in the family office industry. CCC Alliance, founded in 1994, is a group of successful families and individuals that collaborate regularly on wealth management and family office matters. Laird is also the co-founder and Principal of the Cairnwood Cooperative

Corporation, a single family office that manages the affairs of the Pitcairn family, with offices in Boston and Philadelphia. He is also active in the family's global private equity activities. In 2004 Laird helped launch the Wharton Global Family Alliance, a joint venture between CCC Alliance and the Wharton School, where he serves as Chairman of the Advisory Board. Laird is active on various corporate and charitable boards and is a Director and former President of The Glencairn Foundation, the family's charitable giving arm. He is a graduate of Lehigh University and the Babson Graduate School of Business where he was a Sorenson Merit Scholar.

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)

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

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: TBD

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 Papers due 5 pm Sunday Dec. 13