

Dennis – Have you got another pic of yourself for here as the other one is very faint when it's reproduced?

The Pritzker family dispute illustrates how important it is for all members of a family business to feel respected and valued irrespective of their roles within the family. Had clear family policies been established – and discussed – at the point of succession, perhaps this bitter legal battle could have been avoided

# The Pritzker problem

By Dennis T Jaffe

THE VERY PRIVATE Pritzker family of Chicago, owning one of the largest and most respected family-held fortunes in the USA, has been hit with lawsuits by family members from two family branches. Following the death of patriarch Jay in 1999, control of the family wealth – including ownership of Hyatt Hotels and the Marman Group, a holding company with many individual corporations owned by a network of almost a thousand family trusts – went to a designated team consisting of Jay's son Tom, and two cousins, Penny and Nicholas. By all accounts they are competent and dedicated to the family mission of preserving the family's wealth for future generations.

In an official letter to family members before his death Jay expressed his wish that the family maintain the trusts and keep the fortune together, under the leadership of the three fourth generation successors. The sudden eruption of lawsuits and family strife within a family that was known for a deep dedication to family, a frugal and philanthropic lifestyle, and tough but fair business practices in buying and selling businesses, was a shock. It seems almost certain that, contrary to Jay and other family members wishes, their wealth will be sold and divided among the 50-plus fourth generation heirs.

From the public record (I know none of the principles personally) we can learn something of what is happening to precipitate this within the family. Its roots seem to lie in the personal relationships between Jay, his brother and partner Robert, and their children. Jay and Robert were partners for life, living and breathing business and making deals. While committed to family, the brothers seem to have communicated to their heirs that the only way to be respected within the family was to join the business. Although the family supported the ventures of many family members, the competitive ethic left family members who failed to be dealmakers and successful feeling less valued, even disparaged. There was not a

feeling that they were valued, or that it was acceptable to create a life in other areas than business. Jay's son Tom has a deep interest in Buddhist culture, but was persuaded by his father to enter the family business. We can only speculate on his dilemma in making a choice between these two forms of livelihood. He has been very successful, however, as one of the leaders of the family's business ventures, and had worked alongside his father.

His brothers seemingly did not choose or do well in business. While they were supported financially, it appears that tensions rose as the brothers felt increasingly devalued, disrespected and ultimately shut off from the centre of the family. This experience was shared by their cousins, Robert's children. An added complication was that two of Robert's children, by a wife from whom he had an acrimonious divorce, seemed to be treated differently from other members of their generation in terms of inheritance.

Like many families, the Pritzkers had a very paternalistic style of operation. The family leaders, who managed the businesses owned by the trusts, did not include other family members in any aspect of what they did. While family members were very comfortable and had never had to worry about money, they were not involved in the business or financial side of the family in any way. Though they were 'owners' of the family's wealth, they were only beneficiaries of trusts with no rights to any say in the finances. So their experience of being part of the family was that of a child who was taken care of and even indulged, rather than an adult contributor to a serious and consequential venture.

Lack of communication and knowledge, in an emotional field of rivalry and jealousy, inflames passions. Already feeling devalued, ignored and neglected, family members learned that the trio who ran the business were paid unusually large salaries

and fees for their work. The family owners had no idea of the extent of these payments, but they seemed to be excessive.

The whole story is shrouded in secrecy but there appears to be an agreement by the controlling heirs to break up the family wealth over the next ten years, whose origins, given the wishes of the patriarchs, seems questionable. As in other family lawsuits, the offer of substantial payouts to individual family members is not seen as a resolution of the conflict, but as an additional insult.

#### Lessons learned

What are some of the lessons that other families might learn from this emerging dissolution of a great fortune? First, there seems to be a failure of balanced attention to the shareholders. The focus of the family leadership was on rewarding and valuing the family's work of wealth creation, rather than on the development of the family as a community that supported the values of the family. There were no roles for family members to serve the family if they were not in the business, and only a few could find a suitable position in the business.

There was a lack of appreciation of the role of two-way exchange within the family. It was reported that Jay presented his wishes to the 50 or so members of the fourth generation in a letter at a brief family meeting. There was very little discussion of this very thoughtful and deeply felt work. What might have been going on here? Was there nothing to discuss? I suspect that the tone of the meeting did not invite any exchange. I think family members had deeply emotional responses, many feelings and concerns, many questions, and felt that the norms of the family were such that this sort of exchange was not welcomed. In many families, asking a question, expressing a feeling or a different view is seen as a challenge or lack of respect for the patriarch. For a family to open up to input from all family members, they need to work hard to challenge this norm. Sometimes it is quite difficult. My experience in working with many families, is that this document provided a great opportunity for discussion and for the family members to express any concerns.

Another family at a similar crossroads began to consider succession in the same way, with an address from the patriarch. But that was just the beginning of a year-long process. While not questioning the right of the patriarch to set the terms of inheritance, the family had many small meetings, and often heated discussion, on how to make the next generation capable and ready to take on the burden of the patriarch's wishes.

The family tradition of keeping information closely-held seems to have made the situation worse. As part of its work as a family, the Pritzkers should have come together to celebrate and share in each other's activities. While not legally required to do so, they could also have taken this opportunity to inform and teach family members about their many varied ventures. They might even have solicited opinions and input, without giving up

the fiduciary role they had as trustees and executives. It is hard to feel that if family members felt valued and included that they would feel the same resentment against the business members of the family.

When a family member in one's own generation is elevated into a position of family leadership, they become somewhat separated from their peers in the same generation. They have a special role in the family and the community. They take on an obligation not just to be successful in their stewardship of the family's wealth, but in relation to the other members of their generation. I suspect that the three family leaders did not see their role as including informing and leading the other members of their generation. They saw their succession only in business terms.

At the time of succession, the family also might have established clear family policies governing employment, compensation, distribution and exit from their ventures. Since

the family had several branches, some of which had no active members in the family's ventures, such policies were especially important. How does a family member enter the business, and what is expected of a family manager? How are family managers compensated? What sort of payouts and income can a family member expect from their ownership? How does the family support the individual ventures of family members? What are the values that underlie the way the family does business? The lawsuits reflect differences and feelings concerning all these areas. How effective would it have been if the older generation had made these policies clear and explicit when planning the succession process?

#### Applying wisdom

In every family with a trust, and a unified fortune, the issue will arise of family heirs feeling that, despite their wealth on paper, they do not have the means to pursue their own destinies. Some individual family members may feel they would prefer to be the captain of a smaller ship, than a passenger on a luxury liner. They want an option to exit from some or all of

their vast holdings, to be able to fund their own lives, charities or ventures. Many family lawsuits arise because family owners feel imprisoned in the family web, rather than colleagues who have freely chosen to associate. Every shared family venture should find ways to allow those who do not feel comfortable to break free of the family's business, while remaining a valued member of the family.

These reflections are not meant to be critical or presume to second-guess the struggles of a great and good family. Rather, as we hear of the struggle of a family, we can use their experience to consider some wisdom that we can in turn apply to succession issues in our own families. ■

#### Action steps for sustaining unity between governing and non-governing family shareholders

- Treat family shareholders as adults, rather than as dependent children
- Every family member should receive the support and encouragement of the family and its resources for their full development as a productive individual
- Leaders must be transparent about what they are doing and why
- Policies about payouts, exit and compensation should be clear and agreed upon
- Shareholders should have opportunities for two-way exchanges with family and non-family operating executives in ventures

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