



Amassing a fortune is often an event that takes place quickly. But can today's families learn from yesterday's leaders in protecting their wealth, their well-being and the good of wider society?

## Lessons from 19th century wealth creators

By Dennis Jaffe

THE US IS FACING a generational crossroads as trillions of dollars in new wealth generated at the end of the century is being passed down to the next generation. The elders who have created this wealth are beginning to confront the question of legacy: what will be the impact of all this wealth on society, and on their families?

They can learn something from looking at the patterns of business patriarchs of the previous century, at the 100-year impact of some of the great fortunes from the 19th century. That era produced some great fortunes that accumulated very quickly. The new industrial wealth was seen very differently than the 'old money' of the landed families of the time. As today, some of the business titans and their families wanted nothing more than to be accepted in polite society. Their heirs were known more for their parties and houses than for their accomplishments.

Some families pursued different paths, where they focused on recreating their family legacy in each generation. The outcome can be seen in a continual compounding of their net worth – even as the number of family members increases exponentially – as well as in the creative pursuits of the members of succeeding generations, in society, the arts and politics. The successful families built their foundations for the future in three areas: developing next generation leadership for their legacy business; creating a family philanthropic mission; and developing positive values and processes for family member development and participation.

Creating next generation leadership in the legacy business is the greatest challenge facing a family. Families fail when they treat running their business as a prize to be won by the most assertive child. In each generation, a business faces new challenges, and the family must develop its leadership talent.



*Henry Ford: rather than mentoring his successor Henry demeaned and second-guessed his son Edsel.*

One exemplar of how a patriarch develops leadership is Judge Thomas Mellon, patriarch of the family who owned several public corporations and banks. Judge Thomas was a tough businessman, but a dedicated and thoughtful parent to his five sons. His autobiography details how he always had time to respond to each one, and how he assigned each son early on an area of responsibility and a limited degree of autonomy in that area. His sons were all successful in co-operatively developing the family's assets and included Andrew Mellon, who became one of the most acclaimed US Secretaries of the Treasury. Also, he was willing to let go when his sons were ready, and cede control to them. In contrast, the mentorship by Henry Ford of his seemingly competent and dedicated son Edsel consisted of demeaning him and second-guessing him that, some say, led to his early demise. Remarkably the company recovered when his grandson Henry II took over with the help of a professional brain trust known as the 'whiz kids'.

Today we see some very tough and controlling entrepreneurs like Rupert Murdoch, taking time to mentor his two sons by assigning them positions of increasing visibility and responsibility in his empire. We also see quiet successions like Brian Roberts, working with his father Ralph for many years until he succeeded to leadership. While all entrepreneurs have large egos and personas, it seems that the key to success is to show clear respect, patience and interest in the successor, and not see him as a competitor or a threat.

With the vast fortunes some families have amassed, and perhaps some guilt or misgivings about how it came to be, or its immense size, there seems to be a pressure on a family to develop a social or philanthropic mission to guide it. After making a fortune, it is hard to feel motivated or empowered by making still more. The heirs of some entrepreneurial

giants have guided the family into this terrain. The most famous and successful shift occurred in the Rockefeller family. The devout and eccentric JDR was derided during his life for his business practices. His son, known forever as Junior, took the less visible role of stewarding the family into diversified investments, and philanthropy. By creatively drawing on the trust and tax law to shelter the family from inheritance taxes, he created enormous family trusts for successor generations, while also developing a vast network of social and philanthropic ventures.

Junior is the model for a second-generation heir not following father into the family business, but in diversifying and creating a broader family mission. He created the family office, which not only managed the family's investments and trusts, but which offered a springboard for each of his five sons to develop their own set of interests, which included running a bank, developing one of the first venture capital firms, and becoming vice-president of the US. By setting up private foundations, and focusing on clear goals, recruiting talented players, he fostered social innovation in a broad set of areas – science, the arts, the environment and education. In fact, his example redefined the family from its negative image as "Robber Barons" to one of social stewardship. Family members were raised not to go into any particular business, but to use their wealth to make a difference in society.

Today, the closest example of this evolution can be seen in the career path of Bill Gates. Though his children are young, he has begun to shift his family's fortunes from his base in Microsoft, to stewardship of family philanthropy and service.

Interestingly, while he is one of the most successful entrepreneurs in history, he can also be viewed as the heir to a successful and wealthy family, with a tradition of social service. His father, a corporate lawyer, has been a key adviser in developing his foundation, taking on some aspects of the role Junior played for the Rockefellers. Other business leaders of recent times – Gordon Moore, David Packard and William Hewlett of Silicon Valley for example, have seen their heirs and fortunes move toward philanthropy.

The example of the 19th century is that the health and 'soul' of a family is sustained when it attends to both its financial and its social mission over generations. Sociologist Paul Schervish, who has studied the life paths of families of great wealth, finds it to be a natural progression for a family to move into a range of areas including politics, the arts, and social service. The challenge for a growing family of wealth is to create a mission, a set of family values, and support not just for a few leaders to emerge, but for each family member to find their own vocation in life that builds on the opportunities offered by their privilege.

Finding a binding reason for remaining together as a family is another key task for a family. The family founder is often larger than life, living in a grand mansion that can become a source of folklore and a reason for staying together. But each generation of a family must find a new reason for unity or else the family's fortune is simply cut into pieces and spread among the heirs. To

remain integrated, each generation must answer the question, why are we together as a family? Many families find a reason for staying together in their family traditions, religious beliefs, values around service and community.

One tradition that seems key is the family gathering. While the rationale for an annual gathering may be social, families who have remained together find

that other activities can be part of their gathering. They can share financial information and the state of the family's various ventures. They can educate each other. They can share activities and successes of family members. In effect, the family as it grows becomes a community, a village, that comes together periodically to develop the bonds of family.

A recent book by Adam Bellow, *In Praise of Nepotism*, details the positive ways family's pass on their skills in many fields, and how some families become very clear about developing heirs to take on important roles. While there is ongoing debate in the US about whether this is fair, in fact, Bellow suggests that the desire of parents to see their children succeed is so much a foundation of society that we cannot imagine a world where successful parents do not want to promote success in their children. Bellow suggests that when nepotism is accompanied by accomplishment and competence, to open doors but not necessarily guarantee success, then it serves a positive social purpose.

Amassing a fortune is often an event, which takes place relatively quickly. The challenge for families today is to take the fortunate event, and take care that attention is paid to the family's wealth by the next generation's leaders. In addition, they need to learn how to turn their good fortune into a family tradition that nurtures each generation, and develops a positive vision for the family that goes beyond their legacy business. ■

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Dennis Jaffe is a professor at Saybrook Graduate School (djaffe@saybrook.edu).