Wharton Global Family Alliance

Wisdom outweighs any wealth. – Sophocles

Managing Family Succession:

Transferring Wealth From The Creators To The Next Generation

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Managing Family Succession

- One of the central issues in the life of the family and critical to wealth management
- What is succession in the context of the family?
- What are some of the structural issues (Governance)?
- What are some of the process issues?
- What do we know about family management?
- What is the impact of management succession on the value of the firm?

What is the Wharton Global Family Alliance?

- WGFA is a unique institution that allows global families to transcend boundaries to collaborate together for mutual benefit and the benefit of society as a whole.
- WGFA offers a vantage point to identify and act upon opportunities and threats, informed by leading global families and a world-class business school with a focused effort on research and the sharing of ideas and best practices.

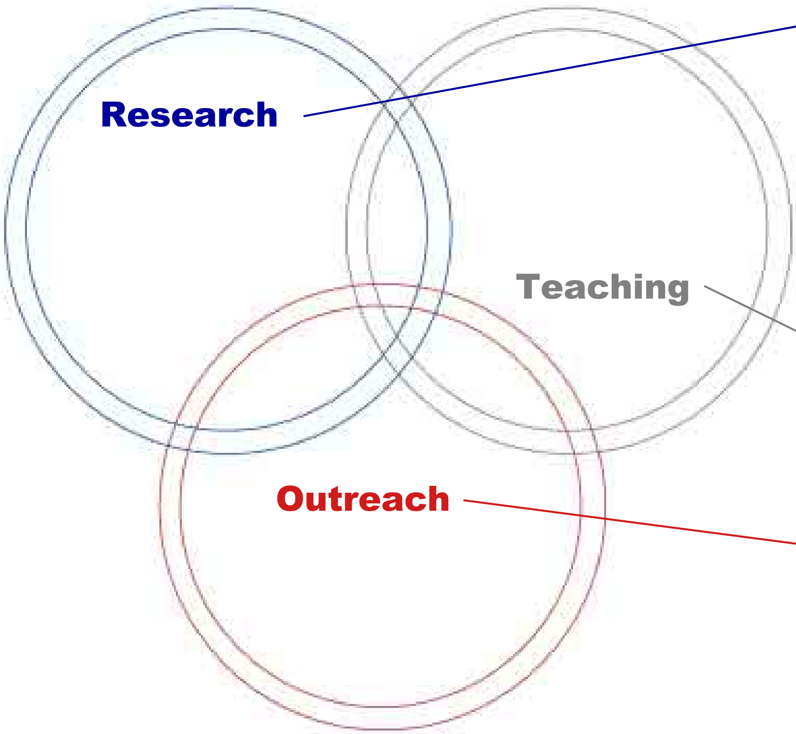
Wharton GFA Mission

- WGFA’s mission is to enhance the marketplace advantage and the social wealth creation contributions of global families through thought leadership, knowledge transfer and sharing of ideas and best practices among influential global families.

Inspiration for Wharton GFA

- Importance of family enterprises
  - 35% of the S&P 500 are family controlled
  - 15% of the world's largest 1,000 businesses are family controlled
  - In Asia and Latin America over 70% are family controlled
  - More than half of the private sector worldwide works for family firms
- Wharton's academic commitment to the study of family business
  - Faculty Advisory Group
  - Full-time faculty search underway
  - Research Grants Advisory Board

Wharton GFA Content



- Leading center for research
  - Wealth management
  - Philanthropy
  - Governance and management
- Real-world experience distilled from WGFA families

- Full-time world-class faculty
- Robust teaching curriculum

- Full-time professional staff
- Regional events
- Annual conference
- Ongoing dialogue

What Do We Know About Family Management?

- Founder-CEO firms trade at a significant premium relative to other firms (Palia and Ravid, 2002; Adams et al. 2004; Fahlenbrach, 2004)
- The market reacts negatively to the appointment of family successors as managers (Smith and Amoako-Adu, 1999; Pérez-González, 2001)

Questions about Family Management

- Is there a positive family effect on firm value beyond the positive effect of founders?
- Does the positive effect of founders require that they occupy the CEO position in the firm, or
- Do non-founder CEOs with a founder-Chairman of the Board fare equally well (perhaps even better)?
- Is the effect of descendants neutral or negative?
- Does the effect of descendants vary across generations?

Overview of Findings

- Family ownership only creates value for all shareholders when the founder serves as CEO, or as Chairman with a hired CEO
- On average, when family firms are run by descendant-CEOs, family ownership destroys value
- The negative value effect of descendant-CEOs is entirely attributable to second-generation family firms
- Non-monotonic effect of generation on firm value: Incremental contribution to *q* of third-generation descendant-CEOs firms is positive and significant

The Focus of Today's Panel

- Should the family continue to own and govern its operating company or should it be sold?
- Who should run the company – should it be a family member or a hired professional manager?
- How to balance the tension between the younger generation's desire for continued wealth creation through entrepreneurship and new business formation and the older generation's concern for preservation of the wealth they created?
- How to divide wealth between next generation family members in an equitable manner?

Today's Panelists

• Tono Baltodano	Nicaragua
• Joe Harari	Panama
• Laird Pendleton	USA