TIES THAT UNBIND
Family disharmony is among the greatest obstacles to sustaining family wealth over generations. BY DAVID LANSKY

Most wealthy families and most business-owning families wish to see their assets perpetuated from one generation to the next. To aid in that goal, professional disciplines have evolved to practices around strategies and structures for business succession planning, for multi-generational wealth transfer planning, for developing next generation infrastructures and business successors and for teaching wealth stewardship. But these strategies and structures of business and wealth management, while essential components of long-term wealth preservation, overlook a simple fact: Healthy family dynamics and family cohesion are at least as important as any of these other strategies in ensuring the long-term preservation of family wealth.

This observation was summarized quite succinctly in personal correspondence I recently had with my colleague, attorney John Denaro, in which we agreed that family disharmony and dissonance pose the greatest risks to sustaining family wealth, at least over the short term.

In a similar vein, Stuart Lucas (who is both an inheritor and a wealth manager) and I recently wrote an article in which we commented: "All growing families face risks to cohesiveness from increasing numbers, increasingly diverse backgrounds and interests, and a progressive dilution of the affinities that define them as family."

Jay Hughes, another thought leader in this area, has devoted much of his career to the field of family dynamics in creating strategies for the long-term preservation of family wealth. He has written about avoiding "Shirazswees to Shirazzwes in three generations," and more recently about "Entropy to entropy in three generations."

The "shirazzes" saying refers to the widely observed phenomenon in which the first generation creates wealth, the second generation spends it and the third generation is required to build it again. The "entropy" adage ties family dynamics to the scientific concept of systems tending to go from a state of maximum order (low entropy) to a state of

Overseas buyout firms had reduced their investments in Korea in the mid-2000s—spooked by mounting public backlash against billions of dollars of gains foreign firms had reaped from Korean assets following the 1997-1998 Asian financial crisis.

"Unlike Japan, where private equity developed over years in an evolutionary way, private equity hit Korea like a revolution," Kim says.

KOREA IS GOOGLE

Since its inception a decade ago, MBK has fully or partially sold 11 companies in its first two funds, including China Network Systems Co. in Taiwan, whose sale is pending regulatory approval. Those deals have returned an estimated $3.84 billion to investors, generating a return of 2.6 times on equity invested.

Kim says South Korea will continue to be "the most dynamic market for buyouts in Asia. Part of the reason is Korea's corporate landscape, which is dominated by large family-owned businesses. That means deals tend to be "behemoth," and the third generation of owners taking over some of these businesses can make deals flow more dynamically," Kim says.

"Korea is Google to Japan's IBM," he says. MBK allocates up to 50% of its funds toward Korea and the rest in China and Japan. Kim says that as a bailout market, China is just emerging and will become the most important market one day.

For a country to be a sustainable buyout market, he says, it needs to have a population greater than 50 million and a per capita gross domestic product of more than $30,000. Only seven countries are in that rich, and Korea is one of them. The others: the United States, the U.K., Germany, France, Italy and Japan.

South Korea's population is 50.4 million, and its GDP per capita on a purchasing-power-parity basis is $35,485, according to 2014 data from the International Monetary Fund.

Though Korea is the world's 13th-largest economy, it's still considered an emerging market under MSCI Inc. criteria.

MR. CHAIRMAN

Even before he set out on his own with MBK, Kim had been one of the most prominent financiers in the country. After graduating from Harvard Business School in 1993, he rejoined Goldman Sachs and gained experience as an M&A banker. In 1995, he joined Salomon Smith Barney, which three years later became part of Citigroup Inc. There, he led the issuance of sovereign bonds worth $4 billion in 1998.

At Carlyle Group, where he served as Asia president for six years until 2005, he led the firm's $450 million investment in Korea Bank, which was later sold to Citigroup for $2.7 billion.

Kim credits his success to being in the right place at the right time. He grew up in an affluent family in Seoul. It was his father, Kim K. Yong, a businessman who later owned an insurance company, who set his son's future course by sending him to the U.S. at the age of 12.

Michael attended private schools in Cherry Hill, N.J., before enrolling at Harvard College in Pennsylvania. He majored in English literature, leading to his lifelong love of the language.

"Don't come back until you have mastered English," he recalls his father saying to him.

Kim—5 foot 10, with thick black hair—prefers a 45-minute squash game over five hours on the golf course. "I have this bad habit of looking at everything in terms of opportunity cost, especially when it comes to my time," he says.

He plays squash with Eric Hoffman, an American who's been chief commercial officer at Am-Risk Solutions Korea since 1998. For nine years, they've played a couple of times a week when not traveling. At the end of each year, the one who won the most games gets to keep a trophy proclaiming him "Big Fat Ahjusan." (Ahjusan means middle-aged man in Korean.)

"Michael really wants to win," Hoffman says.

Last year, Kim did. He won 30 games to Hoffman's 29.

Kim can only hope he'll be equally successful in finally selling off MBK's cable TV companies in Taiwan and China.

He says he's learned to panic in his line of work. Recalling the days when he waited for the fateful call from Paul Tozer of JING, he says:

"Every day it swells and tamps. That's where passion and discipline are required."
maximum disorder (high entropy); thus, systems tend to become increasingly disorganized over time, and the breakdown of organization is a natural phenomenon. Entropy is required to restore a system to a higher level of organization. Entropy is a pervasive concept, explaining everything from why the universe is expanding to why it's so much more difficult to put toothpaste back in the tube than to take it out.

Families are subject to entropy. It's natural for families to tend toward disorder and separation over time; it is certainly true that energy is required to keep a family together. Viewed in this way, the disorder or dissonance that may threaten the perpetuation of a family's wealth can be seen as a force of nature—a predictable and natural threat to the effort to keep the family together.

While we can control the natural inclination of families to move toward a state of disorder, we can try to understand and manage the factors that contribute to or hasten entropy, and we can try to better understand and make use of the factors that mitigate the effects of entropy.

I call the first set of factors “Elements of Dissension” and the second set of factors “Elements of Cohesion.”

I have advised scores of families who have struggled with entropy, dissonance and disunity, and I have identified a number of elements of both dissent and cohesion that seem to occur consistently among asset-owning families.

It is important to note that Elements of Dissension are not necessarily bad. Something may contribute to dissonance, yet still be an essential component of family or business life.

Elements of Dissension

1. Money as a catalyst in manifesting the differences between family members’ values and priorities. While dissent might sometimes be caused by money, there are usually underlying disagreements and tensions around things like lifestyle and spending habits that also come into play.

2. Bias contributes to dissonance in many ways, but in this context I refer to inherent differences in tempera-

Elements of Cohesion

1. Money serves as an element of cohesion. While money can act as an element of dissonance and an element of dissonance. Many families strive for coherence because there are significant financial incentives for doing so, including economies of scale and shared human and intellectual capital. Money can be an element of cohesion when families strive to understand and clarify their values, or when they practice and teach philanthropy.

2. Family culture. Family unity grows when there is a sincere effort to understand the family’s communication culture and to improve it. This may entail working together to create a culture that, for example, encourages family members to communicate more directly with one another and find their own voices.

3. Fair process. Most people can accept most decisions if there is a perception that the decisions have been arrived at fairly. A mutual commitment to fair process can “neutralize” a family against the potentially disruptive impact of controversial decisions.

4. Legal structure that creates a family’s culture. Legal structures, such as trusts and other ways to keep family wealth intact, can help to create a cohesive family culture. However, it is important to ensure that these structures are flexible enough to accommodate changes in family needs and circumstances.

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BLOOD FEUDS

Parents need to ensure their estate planning heads off any possibility of an ugly clash between siblings. By PATRICIA L. DAVIDSON

Siblings can be our closest family members. But when it comes to litigation over family property or money, genetics can fall by the wayside and siblings can quickly become our biggest adversaries.

In disputes concerning wills or trusts, dormant—or not so dormant—sibling rivalry often emerges. Siblings of all ages, and of all economic or professional statuses, have a tendency to dig in their heels, fight for control and often be profoundly pigheaded when legal and family matters collide. While probate disputes are ostensibly about money, the core of most probate litigation concerns decades of complex and emotional family issues. Indeed, a large percentage of sibling squabbles involves people in their 50s and 60s.

Siblings can become involved in probate litigation in many ways. A sibling may try to challenge a parent’s will. One sibling may try to set aside a conveyance of real estate or transfer of other assets that a parent made to another sibling.

Several concerns arise with respect to a sibling who is an executor or is fulfilling his or her duties to the other beneficiaries. Many conflicts begin when a parent treats siblings unequally in a will or trust. A tenant certainly can do what he or she wants with his or her property. The profligate son or nasty daughter may very well not deserve an equal share. Or it may seem unfair if the CEO son receives as much as his schoolteacher brother. It is very difficult for a child of any age to accept unfair treatment.

Wealth or professional status often does little to mitigate the myriad emotions someone feels when a parent treats a brother or a sister more favorably. These emotions can fuel litigation. While all litigation should be based on good-faith legal claims supported by facts, very often these are emotions—righteous anger—proving and complicating the litigation.

Parents, when devising estate plans, should consider sibling dynamics, and should consider both the emotional and financial consequences of treating children differently. There are good arguments for treating each child equally. There are also good arguments for recognizing each child's economic circumstances. Well-drafted estate plans can greatly reduce the types of legal claims a disgruntled child can make.

Disputes of this sort are when one sibling cares for an aged or sibling parent while another sibling remains distant.