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PHOTO-ILLUSTRATIONS BY SAM BENNETT



When it comes to transferring a lot of money between generations, there are so many ways to get it wrong.

IT'S THE MOMENT THE HANCOCK Prospecting succession went awry – that morning in 2003 when Gina Rinehart called her son John into her office to tell him he no longer had a job. It was the second time Gina had fired John, her eldest child. Five years before, she had dumped him from the board; now he was out of the family business altogether. Not just that, he says she vetoed a job offer he subsequently received from Andrew Forrest which was to include a 10 per cent equity stake in Fortescue Metals Group.

The dye was cast. The firing triggered an endless escalation of claims, counter-claims and worsening family relations that by 2011 had spilled over into the courts, as John and two of his sisters – Bianca and Hope – challenged their mother's role managing the family trusts. And just like that, the future of the largest family fortune in the country was swinging in the breeze. How did it come to this?

When *The Australian Financial Review Magazine* launched in 1995, the first issue's cover story, "Passing on the family fortune", chronicled the looming succession crisis facing corporate Australia, as age winnowed the founders of the great private fortunes made here since World War II.

It's the dark backstory of the Rich List, hidden in the annals, family dramas often leading to wealth splintering and surnames disappearing altogether. Two out of three family successions fail, and the businesses fail because of family reasons, not business reasons, says David Smorgon, who has worked with 350 wealthy families in the past 15 years as executive chairman of PwC's Family Business Advisory and more recently his Pointmade consultancy.

Looking back at that cover story, 27 years later, some hard conclusions can be drawn from the changing of the guard that has followed. The first is that managing family succession is hard. It turns out that every family dynasty, even the fondest, the closest and the most enduring, carries a little red button somewhere, labelled Tactical Nuclear Device. It's the button of no return, which marks the point when all sides lawyer up and threaten court action that so often blows up the family.

Gina Rinehart's three older children won a victory in 2015 when Bianca replaced her mother as trustee of the Hope Margaret Hancock Trust, which owns a sizable part of Hancock Prospecting. But the legal war continues, with a new trial this year over ownership of the Hope Downs iron ore mine. It wasn't the only courtroom drama. Across Australia the red button has had quite a workout, from the Morans, the Belgiorno-Nettis clan, the Morans again, the Kirby family at Village Roadshow, even the Smorgons, that most adept of family dynasties.

What these cases show – and what gets lost in the court procedures and headlines – is the cost in raw pain of the betrayal, anger and grief that family members experience when succession plans go wrong. A second conclusion is more upbeat. The last quarter century shows a curious inversion of Tolstoy's *Anna Karenina* maxim about happy and unhappy families. When it comes to succession, all unhappy families have one key thing in common. When it all falls apart and major money is involved, it comes down to the same solution: the slide towards legal action, the reach for the little red button.

But happy families achieve happiness in their own distinctive way. Families like the Pratts, the Lowys, the Smorgons have their own, different solutions to the challenge of succession. Others – and they include the Packers – have found that many disagreements can be resolved with a little understanding and communication, and a rather large bank transfer.

Which was Ernest Hemingway's point. In *The Snows of Kilimanjaro*, Hemingway quotes F. Scott Fitzgerald's line that the very rich "are different from you and me", but adds the rider, "yes, they have more money". And trust funds. When Robert Smorgon died in 2019, he left 18 separate trusts for his family – and these represented just a subsection of one part of the seven families that make up the Smorgon business holdings.

In 1995, Michael Naphtali, who has worked with a number of wealthy families, warned: "There is only one rule. It sounds simple, but it is the hardest one for them: you've got to talk about it." Naphtali sees the issue in similar terms today: "In principle, succession is pretty easy. You get the family together, talk about it, keep the lawyers away from it. You only bring in the lawyers when you've reached substantive agreement."

Mark Leibler, senior partner of Arnold Bloch Leibler, who is often called on to advise high-net-worth clients, confirmed the need to be upfront about succession plans. "I think the more [children] know the better, frankly, I really do," he says. "It prevents resentments from breeding – if some know, but others don't, that in itself can be a source of destabilisation. If they all are aware of what the structure is and what's going to happen, at least they can put a different view, and it can be debated."

David Smorgon says wealthy people are not just comprised of bank accounts and balance sheets and trusts. "There are qualitative issues – they have resentments and jealousies that all families have. It's all played out with the complex issues of wealth. They can't answer the question, what do you want to be remembered for, what do you want your legacy to be?"

HOW TO MEASURE A SUCCESSFUL SUCCESSION? For many it is some combination of peace in the family and increase in wealth. Then there is the prestige of the family name. How do you make it work?

"It's all a question of psychology," says Leibler. "It depends so much on the family – there aren't rules for this ... You can't write a textbook on this, one size fits all. You need experience coupled with a bit of wisdom."

The money involved today is so much greater. In 2002 alone, Productivity Commission figures show, Australia's ageing population transferred just under \$60 billion to the next generation. In 2018, the figure was \$120 billion, and by 2050 it's forecast to reach \$224 billion a year, measured in 2018 dollars. This year's Rich List includes eight people in their 90s whose fortunes total \$26 billion, and 32 in their 80s, worth \$81 billion.

The exponential growth in wealth means the cost in pain and money of getting succession planning wrong can be so much greater. Family is so personal. "It's always a failure of not talking," says Naphtali. "People say it's about the money. It's never about the money, it's about the egos."

A senior family adviser describes a client, who has built a large company, who is constantly approached by other people for guidance and counsel. He doesn't understand why his children, in contrast, never want his advice, that they just want to be left alone. Smorgon concurs: "The next generation is saying: 'It's not all about the f---ing money ... I just would like my dad to acknowledge me, to say well done, I just want to have a meaningful connection with my parents.'"

In Melbourne, Leibler sees a growing emphasis on preservation of wealth rather than continuing the family business. "What's interesting is that the current generation is much more professional, they are far less likely to be risk-takers. In many cases, they are more likely to want to see wealth from the older generation invested and preserved," he says. It's the fear of losing it. "Shirtsleeves to shirtsleeves in three generations" is not just American folklore. Scotland, China, and Japan have similar sayings ("Rice paddies to rice paddies in three generations"). A 20-year study of 3200 high-wealth families by the Williams Group in the US found 70 per cent of family fortunes were lost in the second generation, and 90 per cent by the third.

Some succession patterns emerge, however. Families in the past were inured to the disparity between the eldest child's share of the inheritance and the others. Call it **All the Way With Rupert**. When Sir Keith Murdoch died in 1952, his son Rupert was left just 28 per cent of shares in the family holding company, Cruden Investments, and 36 per cent of the voting rights. But Rupert took control of Cruden, and his long-suffering sisters had to wait more than 40 years for him to buy them out, for \$600 million, in the late 1990s. Rupert's own heirs are unlikely to be as accommodating with each other.





Then there's the **OK, Boomer** approach, in which the family head continually postpones making any solid plans for a structured succession, on the assumption they know best and that they are immortal (and Baby Boomers own 57 per cent of the country's wealth). These are Logan Roy figures, says David Smorgon, citing the central character from the TV series, *Succession*. They are hugely successful in their business, "but behind closed doors, they have the same issues, concerns and fears as the rest of us," he says. "Except they have one flaw. Having difficult conversations on difficult topics is not on their agenda."

Succession is the unspeakable topic. This can lead to the **Prince Charles Gambit** (PCG), where the family scion in their 80s or 90s remains glued to the driving seat, and their heirs are near retirement age by the time they succeed. Some 50-year-old heirs have never had any responsibility, says Naphtali. "You haven't ever run anything, and you're 50 or 60, and suddenly, you've got the business. The kids have no idea how good they are ... They haven't ever been tested."

Rupert Murdoch has flirted with both the PCG and OK, Boomer approach before encountering other problems. Kerry Packer's brother, Clyde, was the heir elect at Consolidated Press, but he got tired of waiting and fell out with his father, just months before Sir Frank Packer, 68, died in 1974, leaving Kerry an accidental millionaire.

Harry Triguboff, 89, has no immediate plan to step down from running Meriton Properties. It's expected that his daughters, Orna, 61, and Sharon, 59, will inherit the shares in Meriton, which are currently all held by Harry, but the position isn't clear. This isn't quite the full PCG. Three years ago, Meriton announced Sharon's sons Daniel, 31, and Ariel, 29, were being groomed to succeed Harry. But they are yet to appear on Meriton company boards, and it seems likely that the four Meriton executives currently on the board of the private company will continue to run the group.

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At the other end of the spectrum is the **Family Buyout**. James Packer paid \$1.2 billion to buy out his sister Gretel in 2015 and rebuild peace between the two. James inherited a \$6.5 billion fortune and within 10 months had sold the Nine Network and Australian Consolidated Press to private equity group PVC for what eventually totalled \$5 billion – superb timing with a bigger payout than his father ever made. Today James' and Gretel's fortunes total \$7.9 billion, which means that for all James' recent stumbles with Crown, the Packer succession has been a success.

Frank Lowy made the inheritance simple: he stepped down as executive chairman of Westfield Group in 2011, with sons Steven and Peter becoming joint CEOs, while providing seed capital for the Lowy Family Group, an investment arm founded by David Lowy. Westfield's \$33 billion sale to Unibail-Rodamco in 2018 and selling out of Scentre Group, the former Westfield Retail Trust, has resulted in the family's wealth jumping from \$5 billion in 2011, to \$9.3 billion today. An arm of the Lowy Family Group, LFG 16, paid a \$1.5 billion dividend in F2021. Meanwhile, Frank's nephew, Elliott Rusanow, has just been appointed CEO of Scentre.

None of these buyouts compare with the shock waves in 1995 when the Smorgon family – having arrived in Australia from Mariupol in Ukraine in 1927 and built Australia's largest private conglomerate, Smorgon Consolidated Industries – decided to sell off everything. Victor Smorgon and other senior family members were replaced by a new generation on the SCI board, to be headed by Graham Smorgon, to oversee the sales. More than \$2 billion would be dispersed between the seven branches of the family, the largest family break-up in Australian history.

Was it worth it? "Victor is one of the smartest people that I've ever seen," says one adviser. "I think really everything would have imploded if they hadn't done what they did to decentralise and divest." A biography of Victor, *Living the Dream*, describes how McKinsey brought in a new

governance structure to SCI in 1990 which Victor found frustrating. While he loved to wander on to the shop floor and talk to workers, "in the new system he was told that if he wanted to go to a factory, he would need permission from four levels of managers".

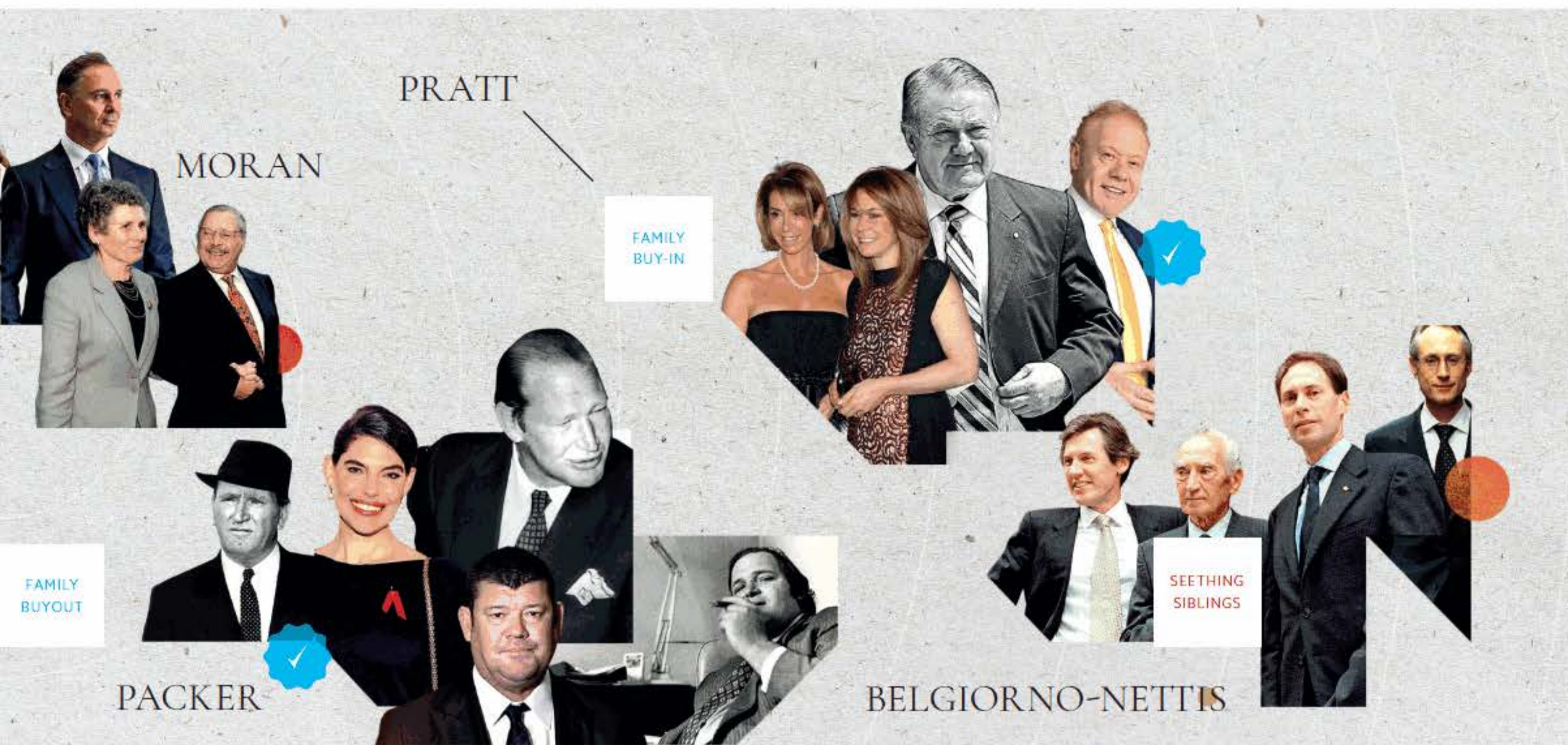
He also fought off a serious golden staph infection. Did this help persuade him to put the younger generation in charge? The sell-off spurred a wave of new investments, notably Victor's alliance with his grandson, Peter Edwards, and other family members to found Smorgon Consolidated Investments (see Fortune Factory, page 30). The family has always had a genius for moving into new industries, from the meat industry to paper, to steel. The sell-down refocused this. It looks like a textbook case for succession, but it wasn't easy.

David Smorgon, who had run the meat division, declined to talk about it. Elsewhere, he has described the sell-off process as the worst time of his life, though in the end he supported the decision. He has written that four of the families supported the move, while three were opposed. The Smorgon name disappeared from the Rich List in 2015.

An alternative to the Family Buyout is the **Family Buy-In**, a manoeuvre where one of the heirs marries an executive who works (or goes on to work) for the family business, providing an injection of new commercial DNA. This is the Pratt family's great triumph with Fiona and Heloise and the billion-dollar in-laws. ASIC records show Raphael Geminder, who married Fiona, was on the board of a string of Pratt companies from 1993. In December 2001, Dick Pratt incorporated Visy Industrial Packaging Holdings, to host the group's move into plastics, run by Geminder. In June 2003, the new business was reporting net assets of \$103 million when ownership was transferred to Geminder, and the company became Geminder Holdings.

Westpac helped fund the deal, and after he sold off part of the business for \$63 million, Geminder began expanding. When he floated the business in 2013 as Pact Group Holdings, Fiona and Raphael picked up \$709 million in share sales and a special dividend, while retaining shares worth \$445 million, pushing their return over the \$1.15 billion mark.





In 1991, Dick Pratt famously handed Alex Waislitz a \$1 million share portfolio as seed capital to invest, before he married Pratt's daughter Heloise in 1994. By 1999, via a series of shrewd deals, Waislitz had turned this into a \$300 million fortune, and today it's well over \$1 billion.

After Pratt senior's death in 2009, it's believed that Anthony, Heloise and Fiona inherited equal shares in Visy Australia, which they help run, while Anthony owns the huge US operation which he built up. The spectacular successes of his brothers-in-law together with Anthony's own stellar growth makes for powerful family bonhomie. And multiple entries on the Rich List.

BACK IN 1995, WHEN WE PUBLISHED OUR ORIGINAL article on dynasties, a common complaint was the way patriarchs overestimated the abilities of their children. That's still an issue, but a more visible problem today is the reverse: **Failure to Launch**. It's where the patriarch or matriarch decides their designated heir is not the best option.

"There is a real issue that does arise more frequently than you would think," says Leibler. "My advice almost always is sell it before you're gone or arrange for a process of sale." John Hancock's feuding with Gina Rinehart is one example. Another is the Murdochs. After decades of speculation about who would succeed him, in 2016 Rupert Murdoch stepped back to let Lachlan and James run the Fox side of the empire – only to change his mind 12 months later and begin talks to sell off 80 per cent of Fox to Disney, turning his children's inheritance into an \$18 billion trust fund.

In 2000, healthcare moguls Doug and Greta Moran and their eldest son, Peter, were sued in the NSW Supreme Court by their daughter-in-law Kristina Moran when she sought punitive damages after the suicide of her husband, Brendan. The family settled. The Morans were back in court again in 2010 with Shane Moran accusing his parents of trying to cut him out of part of his inheritance.

There's also the **One Wedding Too Many** problem. Sir Warwick Fairfax at 57 divorced his second wife, Hanne, to marry Mary Symons, whose son Warwick tipped Fairfax into receivership. Rupert Murdoch was 68 when he divorced his

second wife, Anna, to marry Wendi Deng. Dynasties are adept at prenups, but that doesn't apply to children, which is where the Murdochs came to odds, over whether Wendi's daughters would inherit equal power. Deng ultimately cost the Murdochs \$1 billion by the time she split with Rupert. Much of that was opportunity cost, forcing sales of News Corp shares at market lows to fund a peace treaty with the Murdoch children.

Failure to Launch leads to a related issue, **Seething Siblings**. In 2019, John and Robert Kirby, the brothers who amicably ran Village Roadshow for almost two decades, had a spectacular public falling out. This led to a takeover by Ben Gray's BGH Capital – from which, remarkably, Robert Kirby and his son Clark have emerged as chairman and CEO, respectively.

In 1989, Franco Belgiorno-Nettis and his long-time partner Carlo Salteri stepped back from Transfield, the billion-dollar construction conglomerate they had built together over 34 years, and let their elder sons, Marco Belgiorno-Zegna and Paul Salteri become joint CEOs. It went swimmingly until a joint family dinner in 1995 when Franco insisted that he alone was Transfield's founder.

It sparked a feud which led the families to split the \$720 million Transfield empire in two. Franco took the low-margin construction business – and after his claim to having founded it, how could he do otherwise? Meanwhile, the Salteris took Tenix, the defence contracting arm. One of the Salteri daughters, Victoria, married UBS star David Di Pilla, who helped the family sell Tenix Defence to BAE Systems in 2008 for \$775 million, and the rest of the Tenix assets to Downer EDI in 2014 for \$300 million.

The split has been good for the Salteris, who are backing further Di Pilla ventures. For Franco's family? Not so much. With the Salteris out of the picture, Franco's younger sons, Luca and Guido, demanded that they be joint CEOs alongside their highly capable brother, Marco Belgiorno-Zegna. Luca

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and Guido had a robust social manner similar to Franco's while Marco was more reserved and analytical. Franco began countermanning Marco's decisions in support of Luca and Guido, with some unhappy outcomes. Marco was pushed from the company and took legal action to force his family to buy him out.

The family listed Transfield Services in 2001, but the funds raised went entirely to reduce debt. The family raised \$35.7 million from share sales in 2002 which appears to have been to pay out Marco. They received \$96 million

when the company was taken over by Spanish construction group Ferrovial in 2016 (though the family has other assets). While it's not quite the Salteri payout, Luca and Guido continue to burnish the family name through arts philanthropy – Guido as chairman of the Australian Chamber Orchestra while Luca continues to partly fund the Sydney Biennale created by his father, even though he's no longer chairman.

Elsewhere, the list of unhappy families goes on and on. It's a lot of hurting. "Only one-third of families have real succession plans," Smorgon says. "There's \$4 trillion that will be transferred in the next two decades. If we don't deal with this topic, what's going to happen? Or a more worrying question: how does all this not end up in court?"

Says Naphtali: "It goes back to the fact that you've got to talk. Nothing is fail-safe. But it's just amazing what happens if you get everyone in the same room talking ... typically you need someone to facilitate the conversation." But there is talking and there's talking. "There must be honesty, but you can be sensitively honest, you don't have to be brutally honest," Naphtali says. "If you're prepared to say, and really mean, 'we want to resolve this ourselves and not enter a legal process', then you can save a lot of money and a lot of emotion."

So much is riding on this for many Rich List families. But can they start the conversation? ●