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## Reinventing a family dynasty

*After more than a century, the Pitcairn heirs hang together by shifting their focus to their private trust company.*

By Dennis T. Jaffe, Dirk Jungé and Joseph Paul

The odds against a family sustaining a wealth-generating financial engine for more than a generation or two are staggering. When a family dynasty sells its company and sets out as a financial family in new investment directions, the odds against sustaining the same level of wealth generation are even greater. Yet five generations after the founding of what is now PPG Industries, Philadelphia's Pitcairn family is leveraging its wealth by creating a new vehicle that seeks to sustain a high rate of return for generations to come.

Given their druthers, most fifth-generation heirs without a family company would just as soon go their separate ways and do their own thing. But by sticking together, the 200-some heirs of John Pitcairn enjoy important financial benefits, not to mention a resource network that wouldn't otherwise be available to them.

The Pitcairn family legacy stems from John Pitcairn (1841-1916), a Scottish immigrant who co-founded Pittsburgh Plate Glass Company in 1883. By the turn of the 20th century, the company produced 65% of the plate glass made in America. Over the years, the renamed PPG Industries flourished, and the Pitcairn family shareholders were rewarded.

Seven years after their father's death, John's three sons—Raymond, Theodore and Harold—formed The Pitcairn Company, a family office to look after the financial affairs of the estate and maintain voting control of PPG while they pursued other careers. Raymond represented the family interests at PPG and was engaged in building the Swedenborgian Bryn Athyn Cathedral outside Philadelphia. Theodore was passionate about the arts and pursued a career in the ministry. Harold, a lifelong aviation enthusiast, founded an air mail service that eventually led to the formation of Eastern Airlines and helped develop the Pitcairn *Autogiro*, a precursor to the helicopter.

Each of John Pitcairn's three sons had nine children, and by 1950 there

were 61 descendants of the founder. In the 1960s the family office formalized an investment department to meet the needs of the rapidly growing family. The family office also pioneered the creation of several important programs for its family shareholders: an annual report, an annual meeting and educational programs for the children.

By its 50th anniversary in 1973, the Pitcairn family office had grown to more than \$200 million in assets—this after paying out more than \$750 million in dividends. While the returns from the family’s large stake in PPG produced much of this wealth, it was time for the family to look for more dynamic and diversified investment vehicles.

Then as now, the Pitcairn heirs pursued a diverse variety of careers. They are contractors, doctors, artists, musicians, videographers, photographers and teachers as well as environmental scientists, psychotherapists, massage therapists, investment advisers, real estate developers and venture capitalists. Some family members wanted to withdraw their money or manage their own investments. After considerable analysis, a decision was made to liquidate the personal holding company, which required the sale of almost all of the assets, including the family’s PPG stock. For the first time, the Pitcairn family separated itself from the company it had founded. In 1987, the family office reconstituted itself as a private trust company, Pitcairn Trust Company, located in the Philadelphia suburb of Jenkintown, Pa. Instead of managing only the family’s money, the trust company would manage outside clients’ funds as well.

This strategy represented a huge paradigm shift for the family. In making it, the Pitcairns followed the lead of other large private family offices, such as Bessemer Trust, Rockefeller and Glenmede Trust, which had followed a similar path.

Why did the Pitcairn heirs decide to transform their private family office into a multi-client wealth management firm? For one thing, it would improve their ability to attract and retain quality professionals on the staff. Ownership could now be shared with management. And bringing non-Pitcairn family clients into the mix—with their ability to “vote with their feet” if they don’t get results—would exert additional discipline on the staff that the captive family members themselves lacked the leverage to impose. Above all, the family perceived the trust company as an opportunity to vastly expand the family assets.

No more than three members of the Pitcairn family have ever actually worked at Pitcairn Trust Company at any one time. So as part of the transition to a multi-client family office, the Pitcairn heirs worked out a governance structure that reflected several clear desires: They wanted

continual feedback about the business, they wanted to ensure that younger generations would participate, and they wanted the new business initiative to be guided by a “Mission and Principles” document.

Working with the family business consultant Peter Davis of the University of Pennsylvania’s Wharton School, they collected ideas from about 90 family members. The key concerns of family members soon emerged:

- Defining the limits of trustee control.
- Succession planning for family trustees.
- Determining the role of family directors.
- Ensuring family representation on the company board.
- Developing a written description of the key duties of senior officers of the corporation.
- Maintaining an ongoing “free association” policy that would allow family members and their trusts to withdraw their funds and obtain services elsewhere if they chose.

The family governance structure they designed called for two boards. The traditional Pitcairn Trust board of directors consists of ten family directors and four non-family directors. (The current board represents three generations of Pitcairn family members—two members of the third generation, seven from the fourth generation and one from the fifth generation.) They also created a “director emeritus” status, which helped establish openings for new family board members without discarding talent of long-standing members.

But the unique feature of this governance structure was the creation of a parallel family “auxiliary board.” Through a variety of tasks—like convening a family meeting every two years and overseeing a financial education program for family members—this auxiliary board functions as a continuing training ground for future family leaders, either blood relatives or their spouses.

“The problem was that as the family grew, young people didn’t have the tools to step into the director role,” recalls Rick Pitcairn, an investment manager and, at age 42, the fourth-generation head of the auxiliary board. “We thought: Why don’t we have a board for the younger people, to

educate them about what we do and why?”

The auxiliary board in effect became a springboard for relatives like Chris Kerr, a venture capitalist, who at age 36 has advanced to become the only fifth-generation member on Pitcairn Trust Company’s official board. “Growing up in Bryn Athyn,” he recalls, “I was intrigued by the family’s business.” He first got involved in 1980, when as a 13-year-old he attended a workshop over three weekends that was offered to introduce young people to the family’s financial business. When the auxiliary board was formed, he volunteered to join.

The auxiliary board’s members (currently 11) nominate themselves, usually from the ranks of young relatives who have attended the periodic family investment and financial services seminars sponsored by the auxiliary board. These week-long events were designed to de-mystify the financial services industry and the challenges of inherited wealth. (The seminars usually involve outside speakers as well as a trip to Wall Street.)

Another key cornerstone was the Pitcairn Trust’s “free association” policy, which meant that a family member could freely decide to leave the new Trust Company. Over the years, about half of the family members have decided to leave the firm. At the end of 1993, a large group of family members left—either to pursue different investment philosophies, or because they objected to opening the Trust Company’s doors to non-family clients. This difficult transition required sensitive attention to the needs and voices of all family members.

In 1998, the family office marked its 75th anniversary, and family members and the auxiliary board seized this opportunity to celebrate the past and explore the future with a special family retreat in the summer of 1999. (Relatives paid their own travel and most lodging expenses, but Pitcairn Trust paid for the events and activities.) By this time Pitcairn Trust had successfully evolved from a private single-family office serving the needs of only the Pitcairn family to one of the nation’s most highly regarded full-service wealth management institutions, with more than \$2 billion under management, more than half of which belongs to some 200 non-family clients.

Yet with a dramatic growth in the number of family members, the Pitcairn family’s *per capita* wealth was in danger of decreasing unless the family found other ways to generate wealth. The stock market was booming at the time, and a new wave of high-tech millionaires was demanding more sophisticated financial planning and advice. Pitcairn Trust’s managers saw an opportunity to solicit this market aggressively, but such a strategy

would require a greater degree of risk. It was important to get feedback from the Pitcairn family shareholders before moving ahead. The retreat seemed like a good opportunity.

The challenge was how to listen to all the different voices in a growing family and to focus the concerns into a dialogue that would lead to effective decisions. “It has always been difficult to get all the members of a large family to give input,” says Rick Pitcairn, chair of the auxiliary board that planned the retreat.

To identify everyone’s concerns, the family used the “Aspen Family Wealth Inventory.” This survey asks 100 questions about the family relations and wealth management. The results provide a quick graphic “snapshot” of a family’s strengths, weaknesses and areas of disagreement ([www.aspenfamilybusiness.com](http://www.aspenfamilybusiness.com)). By filling out the survey, family members felt assured that their concerns would be heard. Ultimately, nearly 100 Pitcairn family members took the survey. “They saw it as an opportunity to talk back to the family and the business,” Rick Pitcairn remarks.

In June 1999, 108 adult Pitcairn family members gathered for the retreat at the Sagamore resort in upstate New York. It started with a welcoming reception on a beautiful terrace overlooking Lake George. Family members were able to reunite with others who had traveled from many parts of the U.S. and Canada. The formal meeting started the next morning in the resort conference center. Pitcairn Trust chairman Dirk Jungé, a great-grandson of John Pitcairn, presided over the business meeting, which started by honoring the past in a special video. Alvin Clay, the non-family president of Pitcairn Trust, presented the firm’s strategic plan to generate new wealth for the family by expanding the company’s wealth management services.

After a day of activities designed for family bonding—including a scavenger hunt that divided the family into two teams—the relatives spent several hours in a formal discussion of the survey results and explored several key concerns among all business families. For example:

1. In matters of money and status, how do we ensure that the self-interest of more powerful individuals stays balanced with the family’s common interests?
2. As our numbers continue to grow, how do we manage the diversity of beliefs, opinions and values that will naturally emerge?

3. In our busy lives, how can we give our shared interests the attention they need?
4. How can we ensure that everyone is acknowledged for his or her contributions to the greater good of the family?
5. To what degree is the Trust Company obliged to assure that individual family members will be adequately prepared for their respective lives?
6. How can we be assured that the best people are in the most responsible jobs in our company?
7. Do we need clearer policies about how individual family members grow into family leadership?
8. Just how well defined do our policies need to be concerning how our assets are valued, bought and sold?
9. Do we need to better define the respective responsibilities of the family compared to those of the board of trustees?
10. What is the responsibility, if any, of the larger family when a relative doesn't seem able to handle the individual responsibilities and emotional challenges of wealth?

The family members were divided into discussion groups based on age (60-plus, 50s, 40s, etc.). After discussing these questions, each age group selected a representative to speak to the entire family on behalf of the group. After all the groups had spoken, the family board members were asked to move their chairs into the center of the ballroom, form a circle and confer with one another (in front of the whole group) about what they had just heard and what they felt their next steps needed to be.

“The discussion was wide open, passionate,” recalls Chris Kerr. “People said what they felt, which lifted a lot of weight off our chests. There are some very different nuclear families, value systems and ways of acting, even in our family group. This discussion gave us the opportunity to understand all of this, and trust that the board would listen and act in the best interests of the shareholders.”

The by-product of this sort of dialogue may be just as important as the product. “The least financially informed people in a family tend to be the

most skeptical,” says Rick Pitcairn, who manages money for other high-net-worth clients. “Once you educate them a bit about why decisions are made, they become more comfortable.” The real question for the owners is whether Pitcairn Trust could become the family's next PPG Industries. Stay tuned.

That gathering was a watershed of sorts, infusing the Pitcairn family with a renewed entrepreneurial spirit, a wealth-building focus they hadn't known for some time. One example: Two young family members, working through the auxiliary board, designed and demonstrated a beta version of an Internet family tree website, called “Relativity,” to promote family exchange and communication. Each family member would be able to maintain his or her personal data, including a picture, address and contact information.

The website also fosters the formation of affinity groups—for example, family members can search for others who share their interest in rock climbing, aviation, fishing and scuba diving trips, Habitat for Humanity outings, whatever. Similar searches also allow networking on career decisions (searchable by company, industry or job title), and education (searchable by school, major/minor and degree).

“Relativity” is still evolving—a new version for the family’s use is planned for the coming year. If this family networking tool can be marketed to other far-flung families, it could potentially generate new royalty income for future generations of Pitcairns.

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## **Do family businesses make good investments?**

To diversify their holdings, in 1986 the Pitcairn heirs jointly sold their entire block of PPG Industries shares back to PPG Industries at a premium over the market price. The question then became: Where to invest the proceeds? Since PPG had served the Pitcairn family so well for so long, the heirs were inclined to put at least some of their assets to work in the same way the Pitcairn family’s own wealth had been cultivated: in family-

controlled (albeit publicly traded) companies.

In the late 1980s, Pitcairn Trust commissioned a Wharton School study to identify and analyze a broad sample of public companies with at least 10% family ownership. The researchers compared those 132 companies' performance to the S&P 500 over a 20-year period. The results were striking: The family firms significantly outperformed the S&P 500 index in bull and bear markets alike.

Within this universe of family firms, the Wharton analysts sifted through company financial reports to find the hallmarks of managerial discipline: low debt, good cash flow, reinvested earnings, thoughtful capital spending and strong profit margins. The result was a portfolio of 25 to 30 stocks in which Pitcairn Trust took an investment stake—a registered investment strategy called “Family Heritage.”

This portfolio performed well until 1994-95, when it lagged behind the overall market. In 1996, Pitcairn's investment professionals refined the research. Using analytical software that wasn't available when the portfolio was first established, they examined 250 prospective selections more closely for return trends, risks and other elements. Many of the original stocks stayed in the portfolio, some were re-weighted and a number of large-cap company names were added.

Pitcairn's research has concluded that family money enjoys the big advantage of being patient money. These companies are committed to higher levels of internal reinvestment and focus on industry leadership, greater return on assets and equity—and consequently they're superior investments.

“The performance of Pitcairn's Family Heritage portfolio confirms its premise—that well-run family-controlled companies can be excellent investments over the long run,” says Pitcairn Trust chairman Dirk Jungé.

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