Jay Pritzker's June 9, 1995 family succession memo ("I expect our modus operandi will continue harmoniously through this next generation")

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Jay Pritzker Unsuccessfully Tried to Ensure
Smooth Business Transition

By Barbara Rose, Chicago Tribune
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Dec. 23--Four years before Jay Pritzker's death, the scion of the billionaire Chicago family tried to ensure that his family's business dynasty would survive into the next generation.
He called a family meeting and distributed a two-page memo to 11 heirs, naming his son, Thomas, as his successor and outlining the family's business philosophy.
Writing as a father sensitive to family jealousies, Jay Pritzker also named the management team that would run the family's businesses, including the Hyatt hotel chain, and recommend how much money each family member received.
"I expect our modus operandi will continue harmoniously through this next generation," he wrote in the memo, dated June 9, 1995. A copy of the document, offering a rare glimpse into the intensely private family, was provided to the Tribune by Cindy Pritzker, Jay's widow.
The memo suggests that the management team and Pritzker cousins who invest personally in deals, using their own money, should be entitled to extra compensation.
"We believe that special recognition and financial participation should be given to those who assist in administering the family's affairs and in enhancing the family wealth, a very difficult and often thankless task," the memo says.
That and other statements are now at the heart of a dramatic family crisis that has divided one of Chicago's wealthiest and most influential families and opened their business affairs to unprecedented scrutiny.
Jay Pritzker's attempt at a smooth transition ultimately failed.
Family tensions erupted after he died in 1999 in a dispute over power, money and control, including a belief by a majority of the Pritzker cousins

that Thomas and two others who manage the family's businesses--Nicholas and Penny--had paid themselves about $500 million more than that to which they were entitled.

None of the 11 will comment about the dispute that led the family to bring in several high-powered friends to mediate a private settlement.

That agreement, reached late last year, replaced Jay's system with a plan to carve up the family's $15 billion fortune and distribute the wealth within the next 10 years, signaling the end of an era for one of Chicago's most powerful business empires.

But the agreement prompted a lawsuit filed last month by a younger member of the family who was excluded from the settlement, 18-year-old Liesel Pritzker. Thrust into an unwelcome spotlight, the family now is trying to stop the fighting while figuring a way out of its legal troubles.

In a written statement, Cindy Pritzker, 79, described the recent publicity as "extremely painful," and said it has caused "significant confusion regarding the direction and values of the family as established by my husband, Jay."

In releasing the document to the Tribune, she said: "It is my hope that the enclosed copy of a 1995 memo from Jay to his adult children, nieces and nephews will shed some light on what was intended."

The memo was written by Jay and his brother, Robert, who retired last year as head of the family's industrial holding company, Marmon Group.

Beyond its legal import as a document that guides the Pritzker trusts, the memo rings with the tone of family elders trying to convey a dynamic leader's moral authority.

"Since our generation primarily created the wealth our family possesses, within the limits imposed by law, we are entitled to express our wishes as to the disposition of that wealth," the memo says. "We would expect each individual to feel morally bound by these concepts."

The memo carefully outlines the views of two brothers who worked as partners all their lives--Jay the dealmaker and Robert the industrialist and business operator--about how the Pritzker wealth should be shared.

The document conveys the family's work ethic and Jay and Robert's hopes for a smooth succession to a new generation overseeing the family's financial affairs.

The memo also explains the desire to maintain the Pritzkers' vast wealth and business dynasty largely intact while making comparatively modest distributions to billionaire family members.

When the memo was distributed, trust documents were signed to give each of the 11 cousins a total of $25 million in graduated payments through age 40. Those payments, which represented an increase in the payouts the cousins already had been receiving, were in addition to annual living stipends topping out at $1 million.

Jay and Robert worried that too much money would undermine their younger generation.

"We earnestly hope that providing money from the trusts will not destroy the family ethic," the memo says.

The memo makes clear that the trusts were not to be broken up.

Rather, the brothers intended the trusts to serve as a repository to keep the business dynasty growing.

But that was not to be.

None of the Pritzkers would comment about the events leading to the negotiated settlement. This account is from multiple interviews with family advisers and close family friends, who declined to be quoted.

After an exhaustive valuation of the family's vast holdings by outside accountants, most of the 11 cousins became convinced that the three managing cousins had assigned themselves about $500 million more than their rightful percentage of the family's holdings.

In the view of the cousins who challenged the allocation, the three had violated the family's ethic, if not overstepped their legal bounds in managing the family trusts.

They accused the three of awarding themselves outsize salaries while bungling oversight of investments such as the failed Superior Bank.

The bank's collapse caused the Pritzkers to negotiate a $460 million settlement with federal banking regulators last year, while admitting no wrongdoing.

But the managing cousins believed they had acted in strict accordance with the spirit and the letter of the family trusts, as Jay Pritzker outlined in the memo.

In support of their position, the three cite the language in the memo allowing extra compensation for cousins who oversee the family's affairs.

Rather than go to court, the two factions negotiated a settlement that provides far more oversight and accounting, with the help of trusted outsiders such as Newton Minow, former Federal Communications Commission chairman.

As part of the settlement, each of the 11 cousins received a cash payment of $30 million when the agreement was signed, while the three managers kept the disputed wealth.

The settlement agreement distributes the fortune over the next 10 years.

It also puts in place a governance structure with arbitration procedures for resolving any future disputes.

Andrew Keyt, executive director of the Family Business Center at Loyola

University of Chicago, says such family structures are essential for keeping peace in successive generations of wealthy families.
"When a key family member passes away, it often forces the family to reorganize," he said. "What often happens is that family conflicts that were quiet suddenly find a voice.
"The important thing is to avoid the power struggles that come out of these conflicts by having a family governance system," he said.
The Pritzkers' settlement marks the end of an era when a close-knit group of entrepreneurial relatives could sign documents at one another's request without even reading them, as Nicholas' father did.
"In our family, we lean on each other a great deal," Jack Pritzker testified in a 1977 tax-related court proceeding.
"If my brother said this was the case, that is good enough for us. We really don't try to outguess each other."
Tribune staff reporters Bruce Japsen and John Keilman contributed to this report.
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