

LOS ANGELES BUSINESS JOURNAL

Keep It in The Family?

Special Report: Wealthiest Angelenos

Ultrawealthy parents face tough decisions about whether to give their children the keys to the family business.

By **RICHARD CLOUGH**

Monday, May 16, 2011

Even when his children were young, Marc Nathanson couldn't help but share with them his enthusiasm for the television industry.

The cable TV pioneer would talk shop around the dinner table and had his kids reading trade magazines such as CableWorld. He even got J.J. Jackson, one of MTV's first on-air personalities, to DJ his son Adam's bar mitzvah.

But for all the encouragement he gave his children to go into the media industry, Nathanson refused to let them join his company, Falcon Communications. He wanted them to find their own success.

"It was tough to digest at the time, but I think it really helped me focus on building my own name," said Adam, 40. "I didn't have that fallback plan."

The elder Nathanson wasn't totally hands-off: He used connections to help his sons secure their first industry jobs. Adam became an executive with MTV, while the younger son, David, joined Fox.

"After that initial job, they built their own successful careers," said Nathanson, who ranks No. 40 on the Business Journal's annual Wealthiest Angelenos list with an estimated net worth of \$950 million.

Nathanson's relationship with his children shows just how complicated it can be for L.A.'s wealthiest to help their offspring achieve a similar measure of success.

Should they be given a helping hand? Made part of the family business? Perhaps only welcomed after time out on their own?

Whatever the strategy, the motivation for the ultrasuccessful is often the same: how to ensure their children will make something of their lives. A recent survey by U.S. Trust, a wealth management subsidiary of Bank of America Corp., found that the success of their children was one of the most important measures of self-worth for ultrawealthy individuals, well ahead even of their own success.



For some, like local business leaders Edward Roski Jr. and Robert Maguire Jr., that has been achieved by becoming business partners with their kids. Others, like Alfred Mann, have felt at times that their wealth has damaged their kids' motivation to work hard and achieve independent success.

Some are so eager to pass along their business savvy that they push a little too hard. As Lynda Resnick, the billionaire matriarch of the Pom Wonderful empire, put it, "We talked about this so much when they were growing up ... I think we burned them out."

For those that do bring children into the family business, the challenges can be immense, even for those who seem to have the Midas touch in the business world. For instance, media mogul Sumner Redstone has publicly feuded with his daughter, Shari, over the future of their family-owned theater chain, National Amusements Inc.

Family ties can blind business owners to their children's shortcomings, which can hurt the company. Executives of public companies can also face charges of nepotism. Still, figuring out how to make their legacies last is at the top of successful business people's minds.

"It's a huge concern," said Grace Russak, senior vice president of Whittier Trust Co., a wealth management firm in South Pasadena that handles intergenerational wealth transfers for billionaires and other affluent individuals.

"Who is going to take over the company and how is that going to ensure that the company is properly positioned and managed and how will that affect family dynamics?" said Russak, who singled those out as important issues.

'Will to work'

One of the biggest dangers for children of wealth, analysts say, is the potential for the family fortune to drain their ambition, especially given what can be intimidating success by the parents.

"I know people of similar or much greater wealth whose children don't work quite so hard," Nathanson said.

Mann, the biotech entrepreneur who started MannKind Corp. and a number of other companies, has been outspoken about the corrosive effect of too much money. The octogenarian father of seven, who told the Business Journal in the past that "I can't say I have been the greatest father in the world," rues the impact his fortune has had on his kids.

"Most of my children have lost the will to work," he said in a 2005 speech. Mann could not be reached for comment for this story.

Today, only one child works for him: Carla Mann Woods, an executive at the Alfred E. Mann Foundation for Biomedical Engineering.

Mann, who is the 29th wealthiest person in Los Angeles with a personal fortune of \$1.5 billion, has opted not to pass on the bulk of his riches along to his children. Instead, he hopes to give it away to universities for biomedical research and development. He has already given away hundreds of millions, including a \$162 million endowment to USC.

Mann is not alone in his reluctance to pass on his money; in fact, analysts say a growing number of affluent parents are opting against giving out large inheritances.

More than half of the wealthy individuals surveyed by U.S. Trust said they don't plan to leave a significant inheritance for their children. Respondents said they feared their offspring would make poor decisions, squander the money or "become lazy." Instead, many are looking to give the money to philanthropic causes or to spend it on themselves before they die.

Parents often think their kids "don't understand or don't appreciate the value of hard-earned money that their parents had," said Thong Nguyen, west division executive for U.S. Trust.

To combat that, some wealth managers encourage parents to force their children to make it on their own before letting them into the family business.

"That experience is vitally important to building their character. They will be far better at running the company and far better in terms of their character if they have done that," Russak said.

Though he did lend a helping hand, Nathanson took that notion to heart, much to his sons' initial dismay.

"We were always told that Falcon was not a family business," said David Nathanson, 35. "Growing up, there was never any miscommunication or misunderstanding that that was something to rely on. We knew we had to make our own path."

But David said his dad helped him get an internship at media company Cablevision, and from there, the younger Nathanson worked his connections to earn a job at News Corp. Today, he is general manager of Fox Soccer Channel.

Meanwhile, his brother, Adam, landed a spot at MTV with his father's help. He later worked for several independent companies before launching his own ambitious project, a radio broadcast company called Mapleton Communications, in 2001. Then, with some startup capital from his father, Adam began buying radio stations in underserved markets along the West Coast, using a similar business model that his father employed with Falcon. It became California's No. 2 radio group before Adam sold it to Lazard Ltd.

Adam is now working alongside his dad, overseeing the investment portfolios for Mapleton Investments, a family investment firm chaired by his father.

Now that his kids have proved themselves, Nathanson said he wouldn't mind starting up a media venture with them.

"I wouldn't be opposed," he said. (His other child, daughter Nicole, went into teaching.)

Legendary L.A. developer Maguire, whose net worth stands at \$925 million and is No. 42 on the Business Journal list, took a hands-off approach with his progeny, but like Nathanson exposed his kids to his trade.

"They all grew up around" real estate development, Maguire said of his four kids. "They have independent interests, but ... they all walked construction sites as kids. They know every major architect in the world."

Still, it took a while before any of his children came to work with him, as none came directly into his businesses, which included several of L.A.'s largest commercial real estate development firms. In fact, the son he now calls his colleague, Alec, never thought he would get into development.

"It wasn't a question that ever came up," said Alec, 35, who added that his father "may have a bit of a reputation for being a demanding guy, but ultimately there was never any pressure to follow in his footsteps."

Initially, Alec followed after his grandfather, a well-known World War II fighter pilot. Alec got his pilot's license and spent years flying wealthy clients around the globe on charter jets. He even went out on his own in 2005, launching Maguire Aviation Group to cater to corporate fliers.

But sometimes the pull of the family business is just too great.

The elder Maguire put his money – a "very significant investment," he said – into Maguire Aviation and set about buying up terminal space at Van Nuys Airport. The company, which has since dropped the charter flight business, has acquired 70 percent of the terminal space in Van Nuys and is on the lookout for more.

As chairman of the company, Maguire said he's proud to show the ropes to his son, who runs the day-to-day operations as president.

"He's a super pilot and he's turning into an excellent executive. I think he really likes the development business and he is really developing," Maguire said.

Family bonds

The drive to keep the business in the family can be particularly strong with immigrant entrepreneurs – even in multibillion-dollar enterprises.

Do Won Chang and his wife, Jin Sook, founders of Forever 21 Inc., have made their daughters the public face of the fast-growing apparel chain, which started with a small Koreatown storefront in 1984.

The South Korean immigrants, who have a combined net worth of \$2.45 billion and debut on the Business Journal's list this year at No. 16, rarely talk to the media and were not made available for this article. But Chang told the Business Journal in October that the bonds are very tight for his family, which takes vacations and goes on mission trips together in addition to working together.

Linda and Esther, his 20-something, Ivy League-educated daughters, joined the company full time two years ago after working for Forever 21 during summer breaks in high school. They bring a youthful approach to the enterprise. Linda heads the marketing department, which manages a blog, a Facebook page and a Twitter account; Esther handles the company's visual displays.

Linda, 29, said she was free to pursue any career she wanted, but couldn't pass up an opportunity to work with her family, including her sister, with whom she is particularly close. She said working with her parents has been challenging, but their demanding nature keeps her motivated.

"I feel very grateful to have my parents as an example of hard work and determination," said Linda in an e-mail. "My sister and I plan to always be a part of Forever 21."

The sisters are expected eventually to take over the company, a move Linda said her parents support. However, “there is no such date upon when this succession could take place.”

There is a lot at stake for the company, which has annual revenue in excess of \$2 billion and has opened 74 stores in the past year. But as a privately held company, and one which is notoriously secretive about operations, it has more leeway to function as a family business. Publicly traded companies, on the other hand, invite more scrutiny.

Consumer Watchdog, an advocacy group in Santa Monica, has called out Mercury General Corp. founder and billionaire George Joseph for failing to disclose that he employs a number of relatives at his L.A. insurance company. The group said investors in the publicly traded company, which has a market capitalization in excess of \$2 billion, deserve to know that as many as nine of Joseph’s relatives have worked for Mercury or affiliated companies.

“This is more like a monarchy than a publicly traded company,” said Jamie Court, Consumer Watchdog’s president. “This is really pervasive.”

The company directory reads a bit like a family tree. Joseph’s nephew, Charles Toney II, is Mercury’s chief actuary; Mercury subsidiary Metro West Insurance is owned by George Toney, another of Joseph’s nephews, who bought it from Joseph’s daughter, Ellen; and Louise Toney, Joseph’s sister, also works for Metro West, according to Consumer Watchdog.

The company recently disclosed Charles Toney’s relationship in a filing with the Securities and Exchange Commission.

Joseph, who maintains a personal fortune north of \$1 billion and is No. 33 on the Business Journal list, did not return requests for comment.

While business succession can be a minefield for many entrepreneurs, passing the company to the kids can turn out extremely well. Consider Roski.

The real estate titan has turned Majestic Realty Co. into one of L.A.’s most prominent development firms since taking over the company that his father founded in 1948. In the process, he has amassed a personal fortune of \$2.21 billion, No. 19 on the list.

The company could well be passed to the next generation: One of Roski’s daughters is a managing director at Majestic.

“Sometimes there’s an heir who clearly understands the business,” said Whittier Trust’s Russak. “Some of them want to go into the business and maybe don’t have the level of skills that are needed; others are exemplary.”

Likewise, Peter Lowy has become one of L.A.’s wealthiest while running the U.S. operations for global mall giant Westfield Holdings Ltd., which his father started after buying a small shop in Australia in the 1950s.

Sometimes the children become more famous than their ultrawealthy parents. Sam Nazarian is known as L.A.’s nightclub king, but he is quick to credit his father, Younes, for much of his success.

The elder Nazarian, who fled the Iranian revolution and ended up in Los Angeles in 1979, was an early investor in chip maker Qualcomm Inc., helping him amass an undisclosed fortune. (Sam’s

cousin by marriage is Neil Kadisha, a Qualcomm board member, who is No. 39 on the list with an estimated net worth of \$1 billion.)

Over the years, the elder Nazarian started and operated a number of companies, and his son would work summers at his father's factories. After college, the son dabbled in telecommunications and real estate, helping invest his family's fortune, before launching his landmark hospitality company, SBE LLC in 2002. The company now owns dozens of ultrahip hotels, nightclubs and restaurants.

Nazarian said his father introduced him to a number of potential investors, without whom it would have been difficult to get the company off the ground.

"His support was direct and indirect. His stature in the community, his relationships in the banking world definitely helped me gain credibility," he said. "To be honest, it would have probably taken a little longer (without him.) It would have been a different road."