Essential Reads *on* Family Offices

Contents

Governance, entrepreneurship, resilience and reinvention on the five-generation journey of a family enterprise

Dennis T Jaffe, Maya Prabhu and Carolina Cintra

In 1920, Arthur Tavares de Melo acquired his sister's shares in a sugar mill they inherited, which he turned into a sugar and alcohol plant with his wife Helena's eldest brother José Hardman, and her father, Samuel Hardman. Unfortunately, soon after they started, the depression hit. From 1933, the Brazilian government heavily regulated the sugar industry (which they did for 55 years, until 1989). Arthur and Helena had three older sons, followed by a daughter, and several years later by four more sons, who formed the second generation of the family business.

Over four generations, their business overcame its early austerity to become a huge family-owned conglomerate, comprising many businesses and investments. Their family grew to include 27 cousins in the third generation to 63 blood members – ranging in age from five to 47 – in the fourth, and many more being born into the fifth generation. Their public story includes many business sales and acquisitions leading to a family enterprise with many businesses and investments.

This huge success would not have been possible without their family story – of generational transitions and a shared family culture that developed as each business challenge was responded to by an evolving family partnership based on the legacy values espoused from their humble beginning by Arthur and Helena. While their values are at the centre of their story, they were brought to life and revitalised by the emerging family teams in each generation.

The family has always been very private, but they agreed to share the personal story of how their family values, culture and governance developed from a simple partnership to increasingly complex arrangements in each new generation. We interviewed Eduardo and Marcos, third generation family members, Andre, from the fourth generation, and Marcelo Reis, who runs their family office investment and governance entities.

The family developed from its founding to its current place as a family conglomerate, with many entities and shared family leadership. We tell the story through the major transitions in their business and within the family, and how the family faced each one by rethinking their business and family organisation. Their experience suggests there is no single 'secret' to long-term success. Rather, we uncover common principles developed as they moved from the first to the now fifth generation. After each crisis point, the family reemerged with a revitalised governance platform that enabled the business to adapt and grow with the family.

As they prepare to celebrate their 100th year, they identified the principles that anchor their family culture:

- A strong positive family culture of cooperation and common purpose starting in their 1st generation;
- Family members who know and deeply trust each other;
- An ability to anticipate and face new realities, make decisions that may depart from long-standing features of their business; and
- Involving new leaders in each new generation and passing leadership across generations without losing the wisdom of the older generation.

We present each major transformation over four generations, exploring how changes within the family – deaths, decisions to leave, and the presence of new leadership – along with business shifts – sales, acquisitions and diversification – interconnected to create inner and outer reinvention of their structure and governance. The family succeeded because of the engagement and cooperation of three major groups of stakeholders: the elders and their legacy of values and business wisdom; business builders who developed business discipline and focus; and the entrepreneurial energy of each new generation.

First transformation – shift to cooperative business leadership by second generation brothers

After 15 years of partnership, in 1943, Jose died suddenly. It was the middle of the Second World War, and a difficult time for the business. Arthur was now burdened with the entire responsibility of running the business. He and his father-in-law decided to sell the business. That might have been the end of it. But his three eldest sons – Vinicio, Virgilio and Murilo – wanted to run the business themselves. With hard work, they bought shares in the business from their parents, who in turn delegated the administration of the business to them. This was the first sign that there was a special drive for a family partnership: the sons were still teenagers – aged 17 to 21. Only Vinicio, the oldest, had finished college! Thus, the business swiftly passed to a second generation. They succeeded because of their hard work, along with support and advice from the patriarchs and Samuel Hardman.

After the war, they expanded by purchasing and building new businesses, so that each brother was able to run one of them. The mills were their life; each brother lived on the land near his mill. The younger brothers eventually joined them and worked at the mills as well. While having space for each to run their own mill, the brothers met weekly and saw themselves as stewards for the growing family. They had a strong commitment to shared values and collaboration which became the core of their family culture.

Matriarch's influence

Family members can exert informal influence behind the scenes that play a key supportive role in the business and the family. While the brothers and their sister were the shareholders, they drew support and learned values from their mother Helena, a force in their lives until she passed away in 2000. The third generation remember that grandma was a silent partner, playing a strong role in aligning everyone. Major decisions were all shared and approved by her. One third-generation family member recalls, "My grandfather delegated very young, and my grandmother had great influence on decisions. She had a really strong personality".

Her strong and quiet presence was seen as helping the family avoid the tradition in Latin families to appoint a single strong single patriarch. Instead, they created trusting, highly engaged cooperation and shared leadership. Her great-grandson Andre feels that her example set up a cooperative ethic for successive generations that enabled them to work together and resolve problems without escalating conflict:

I like to think of her as the Chief Trust Officer. She was the person that would evaluate and coordinate people, it is not a formal position. [She told us] it's better for you to think of business first and family second because as you do something that is good for the business then the business goes well, and the family plays well alongside. If you start doing things to accommodate your family situation and that starts to interfere with the business, then it's a major limitation for the future of the business and the family itself. You must be very pragmatic on that. You cannot allow yourself to do things to accommodate this person or that person but to try to do it in a consensus way is always better.

The family had a Sunday lunch at her house, which helped keep the family connected to each other. But the family wondered what would happen when the grandparents were no longer with them, and their numbers increased beyond a single dinner table.

Business acquisitions

As a result of family growth, the new second-generation members wanted to expand and diversify by seeking new businesses. In 1953, the family founded a fruit juice business, Maguary, managed by three of the younger brothers, until its sale in 1984.

The sugar business was moving from the northeast, starting mills in the south centre of Brazil where the climate was better, and production costs lower. They decided to invest in this new region and used proceeds from selling Maguary for purchases.

During the 1960s and 70s, the sugar industry was very profitable, allowing the family to expand and diversify by starting and buying other companies. In the early 70s they bought more alcohol distillers and created an ice cream company, years later joining Kibon (Philip Morris Group) in a joint venture. The family now owned faster-growing and more profitable businesses along with their sugar cane roots.

They recognised that the company had expanded far beyond a trio of sugar mills, and that they needed to professionalise and clarify their structure and decision-making process. The family engaged an adviser to strengthen their governance, guide the succession of the eldest ones and keep the transparency of the process (something that they've always valued). This exemplifies the family pragmatism to keep the family together by anticipating future moves. The consultant made several proposals which became their initial governance, consisting of a shareholder's agreement and rules for family employment. Specifically, they created:

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- a new and more centralised organogram of the decision-making process and policies; and
- new and clear rules about the relationship between family and business, and how family members would enter the business.

Second transformation – departure of a business leader; splitting the business

With their acquisitions, the family enterprise was thriving into the 1990s. The growth and increasing complexity and the involvement of the third generation, led to a need for further change in their business governance and ownership. Since the family had a collaborative culture that emphasised consensus, the trio of family leaders wanted to listen to and include their younger siblings, who they realised would soon be their successors. They wanted to avoid potential conflict and competition for positions and provide a fair and clear roadmap for entry.

For this reason, they developed policies and practices around transparency, making decisions and defining ownership and business roles for each of them, as well as their soon-to-be adult children.

The second-generation younger brothers were many years younger. Some of the 27 third-generation cousins worked in the business. After decades of working together, different branches of the family had different agendas. It was clear the family would benefit from clearer policies about future ownership and management.

Leadership was also in flux. In 1993, the three eldest members from the second generation passed leadership to one of their younger brothers – Romildo – who became President. He saw himself as the bridge to the next generation.

In 1994, after nearly a generation where the three uncles worked in their mills every day, they were presented with a huge dilemma. Murilo, the youngest member of the trio of elder brothers, announced that he wanted to leave the company and the remaining brothers agreed to split the business to allow this to happen.

Another third-generation family member recalls:

I believe all these decisions were hard for everybody, they worked together for 50 years and suddenly they had to split the business and leave … but I believe this was very smooth. I do not remember any big problem in this; we presented the values of the companies to my uncle and his sons, they decided to take the sugar mill and that was it. We separated the business. The family is very pragmatic in these situations; we decide always not to compromise, to affect the business; you must decide what's best for the family but also what's best for the business.

It is unusual for a family to manage such a split cooperatively and in a way that everyone feels is fair. The younger family members attribute their success to their ethic of cooperation, established by their grandparents. Instead of a structure where there was a single patriarchal founder, the family had a deep culture that stressed cooperation for business success for everybody.

Third transformation – entry of the third generation

At the turn of the century, the family faced a major shift of their business and generational succession. The five remaining brothers and their sister had 27 children, ranging from 20 to over 50 years old. Their holdings were taking a very different form from the sugar mills and related companies run by their fathers. The family had professional structures in place, so the third generation faced a family enterprise no longer owner-operated.

Some third-generation family members worked in the business. They expected to become the new leaders, but with so much talent and dedication, the second-generation brothers wanted to ensure that the process of succession was fair, organised and inclusive. This is the point where many successful families face business and leadership challenges as the new generation has different capabilities, values and agendas. Conflict and competition can easily arise. They wanted the process to be as professional and independent as possible, so in 2002 they engaged another outside consultant to work with them to organise succession.

The consultant was asked to 'evaluate' each third-generation family executive and propose changes to the company structure and who would best succeed Romildo. The new structure, announced in mid-2003, *It can be awkward when family members, who have already made a commitment to the family enterprise by choosing to work there, are asked to shift roles, responsibility and authority.*

was implemented with the next generation taking control. New leaders were selected based on capacity and qualifications, irrespective of their family branch. The eldest cousin, Carlos, was named President, Eduardo was named commercial VP, Marcos became financial and business VP and Mauricio was the operational VP.

The business environment was strong and vibrant. Brazil was thriving and restrictions on businesses were being eliminated. After a decade of accumulating businesses in the 90s, the rise of competition and the entry into the market by huge multi-national businesses led the family to decide to sell some of their older, maturing businesses. Other companies they knew, including COSAN, Brazil's largest sugar mill company, had just gone public with an IPO. The family explored a joint venture in some new areas, or sale of part of their business, to a larger firm. This didn't work out, and in 2007 this process culminated in a huge milestone event for the family: they sold their legacy ethanol and sugarcane plants to Louis Dreyfus Commodities.

Fourth transformation: selling legacy business; establishing the family office

With the sale, the family moved beyond a 90-year legacy into new territory. The second and third generation would come into an inheritance of substantial resources that needed to be invested. With one move, the family was transformed from a manufacturing to a financial family. They had to decide their next step, and whether they would remain together as a family. They realised that they once again had to improve/adjust/adapt their governance policies for how they made decisions, who would participate in the move forward, and what form that would take.

How did the sale affect generational and role transition as ownership and management passed to their third generation? It can be awkward when family members, who have already made a commitment to the family enterprise by choosing to work there, are asked to shift roles, responsibility and authority. While they may have been successful and mastered their role in the business, now they had to manage the shift from being owner-operators of huge industrial businesses to that of a financial family. Everyone had to learn and change.

The family took a huge deep breath, as they made sense of their new reality. Before they could act, family members had to decide what they wanted to do and whether to remain together, or each branch go their own way.

Sale of the legacy business is a major turning point for a business family – with the huge liquidity, many families choose separation. This makes sense especially if their identity as a family was with their operating business; without it, their interests separated and there was no need to remain in business together. But there is another path, taken by a minority of families – to remain together and develop a new focus and identity. With their shared history and culture of collaboration, the Tavares de Melo family chose to continue together. The creative task they faced was how to do that.

The new identity for the family enterprise was contained in their family office. Marcelo Reis joined the family to help organise, implement and head up their new investment structure, a position where he remains today.

Marcos described the transition after the sale:

> *We knew we had to have an office to manage the real estate and all these things, so we brought in some people that used to work with us at the sugar mill, opened a new office, sat with our uncles, and created some rules for the family office to work in the beginning, very basic rules. In 2007, after we sold the business, we hired an adviser here, to guide us about how to structure the liquidity so we could meet the family goals, objectives and give the freedom for (everyone) to leave or stay as they pleased. We created a structure that we have today. Of course, it changed a little bit, so most of the people invest the liquidity together but they have the freedom to leave if they want. We are now 14 years later but most of the family still invest together. We are partners, we have real estate and companies together, up to today.*

The new family office enabled them to pursue other investments. Given their commitment to collaboration, as they considered each new investment, individual family branches and sometimes individuals, could decide whether they wanted to be part of each new venture. The choice continues to this day. They worked actively to sustain their shared family identity. While they retained some shared ventures in land, as they embarked on new ventures, they allowed households to opt in or out of each new opportunity. For example, a venture called Sensatto, owned by three of the six family branches, invested in new ventures. They formed what could be called 'a family marketplace', in which the family shared opportunities as they met regularly.

The family now owns or has large investments in over 50 companies. The family is hugely entrepreneurial, generating new ideas and pursuing new investments continually. With their liquidity, several branches began passing ownership to the third generation. As each brother passed ownership to his offspring, the nature of the board, decision making by the owners, and their new business entity, was in flux. The third generation had their own ideas, and everyone was involved.

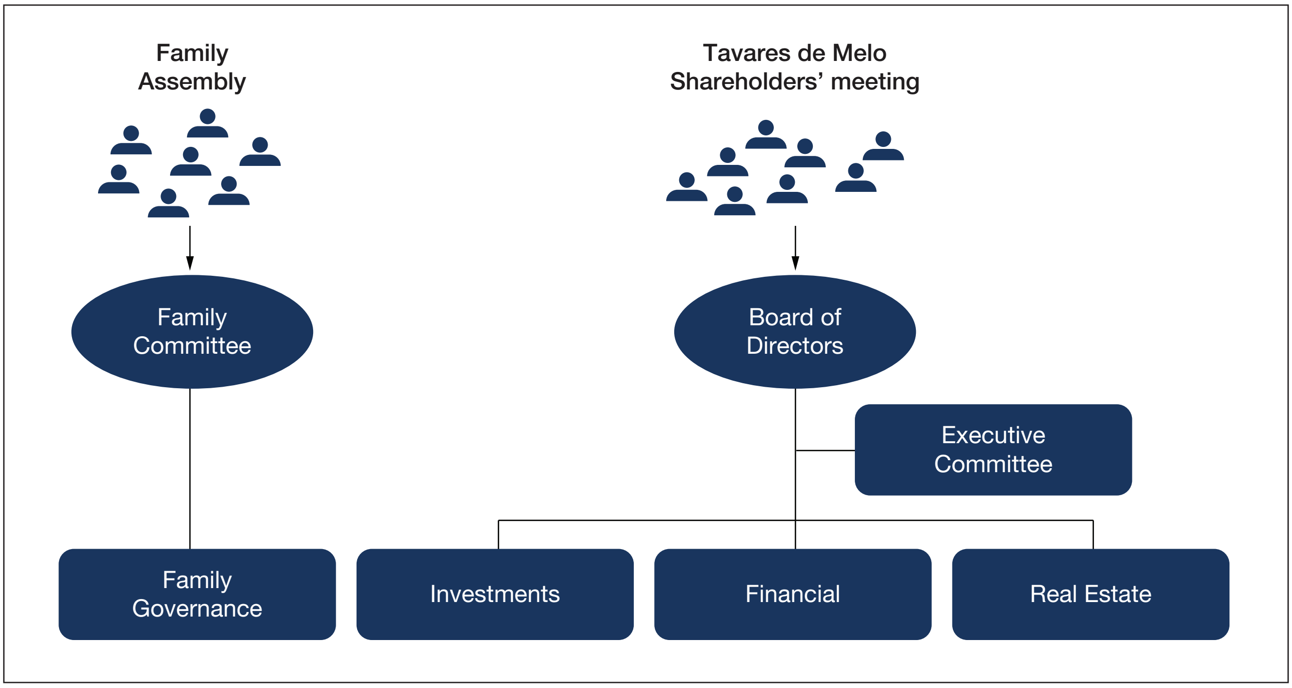
As branches and households invested separately, the family was organised as a holding company containing all family owners. Their legacy values were updated into a unique and special culture with three core principles:

- *Freedom to choose to invest*. While every family member had a share of ownership in the family office, everyone had a portfolio of investments. When there were new liquidity opportunities, each person decided whether and how much to invest. So, ownership in the office portfolio began to differ for each family.
- *Consensus decision making*. The family was democratic and collaborative; every choice was collaborative.
- *Separation of family and business activities*. Creating a family assembly and council that sustained the history and legacy of the family and developed the values, skills and commitment of the new generation to them. The emerging governance structure divided family from business activities, with clear links and interconnections between the two:

Fifth transformation – sustaining family identity and resilience through family governance

As the family office developed, and a new generation acquired ownership, there was a need for further development of family relationships in the new generations. After a generation of brothers as owners, now each family branch contained several owners, with different amounts of ownership. Despite the ownership differences, as a family they wanted to treat everyone equally. Like many evolving family enterprises, there was a difference in rights and responsibilities for each family member as a member of the family and as an owner of the business. Alongside their portfolio of businesses and investments, there were family-based activities that had nothing to do with the business, in which everyone participated.

The six branches now contain 174 second to fifth-generation family members, representing a diversity of views, concerns and familiarity with the business. Andre remembers that when the business was sold "80% of the fourth generation family members didn't have a clear idea who their cousins were, or the family history". Only he and his cousin Mauricio Filho worked for the family. Since they wanted to be a trusting and collaborative family as well as an



investment group, they had to build a structure, policies and activities that sustained the family alongside their business board. Their governance defined a clear organisation for the 'tribe' of family households that expressed their legacy values.

In 2012 they convened a large family meeting for members of the six family branches. When they were smaller, they remembered having family dinners, but now they were spread out, with many households, some living in different countries. To get to know each other, they had name tags with their family branch. As they got to know each other and imagined their shared future into new generations, they shared information about family finances and businesses, and what they were doing personally and in their careers.

Their family governance contained two entities:

- An annual family meeting, where the entire family got together to celebrate their family history, build personal relationships, educate and prepare their rising generations and have fun together.
- A family council – the executive committee of the family – that represented each family member – young, old, married-in – to define and set up shared non-financial family activities.

The family council represented the family, operating alongside the business board of directors. It met monthly and contained a family member from the older and younger members of each of the family branches, for a total of 12. The council saw itself as the legacy keeper of the family values.

The council and assembly identified four goals to guide the family:

- Keep the legacy and transmit this *legacy* to the next generation, not only the next generation, but all family members.
- *Provide the best communication* to the 122 family members of the second to fifth generation (or by including spouses the number goes to 174 and growing every day). They contain divergent people, branches, opinions, values and interests.
- *Integration of the family members*. With fourth and fifth generation members living abroad (US, Europe, Canada), they are no longer a Brazilian family. It's a worldwide family.
- *Educating and preparing* the next generation for involvement and leadership.

Project Legacy develops capability within the rising generation

To sustain the family legacy, the family initiated an all-encompassing initiative, Project Legacy, an ambitious programme that consisted of three levels. A family member had to complete the first level before they could go on to the next.

As Andre, one of the fourth generation working in the business, explains:

> *Level I focused on the family's values, with a strong content of storytelling. The younger ones would gather to hear the histories to the foundation of the business from one of their uncles, they've got to hear … most of them did not hear these stories because the business was sold about 15 years ago and some of them were younger ... they didn't have time to feel that experience … the first part was really focused on values and storytelling. This value and communication and storytelling part lasted for about six months with several meetings; we even displayed some movies from my grandfather and others. All of them were stored online so they can be seen again or by people who have not seen them before. A family member had to complete this programme before they could advance to the other stages.*

> Marcelo continues:
> *Level II focused on technical and soft skills, governance. The idea was to make sure that everybody had the minimum content in their heads to become a responsible stockholder. Even though they didn't want to run or take part in running some business … they need to know the importance of governance and financial planning and leadership and things like that.*
>
> *Level III was the entrepreneurial part, to develop and stimulate the entrepreneurial aspects of each family member. We assembled teams that came up with new ideas for business. Each team had to develop a business plan and go though every step of developing a business plan, so we did it for another year. There were six groups with six different projects, almost 20 members involved. One of the groups was living in Portugal. They shared their business plans with the family and got feedback. One of them was even selected for implementation.*

Coming transformation – succession to fourth generation leadership

As members of the fourth generation reach their 40s, some have begun to work in the family enterprise, and others may enter. Now three generations from the

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As Andre notes:

We have some different challenges. The first was about the structure and the value of sticking together. As the new generation has a different way to see the world, they still should see the value of staying together. I worked in the company for about seven years then went on to work at other companies, as an executive, and rejoined the family business four years ago.

It was more straightforward when we used to run actual businesses, because there were more transactions going on and by the time we sold and transitioned from operators to investors it became more of a challenge. Things are not tangible as they used to be. The main topic now is how to align and engage these newer generations with the company and its values.

In the Tavares de Melo Group, we have four fourth-generation family members working together, three of us without executive positions (between executive committee and the board). We talk a lot about how to engage our cousins, how to work with them, how to open communication channels, how to bring their backgrounds to the business. We have capable people that are not directly involved with the business, but we want to use their experience, to leverage their knowledge from being in other businesses into our families.

Leveraging the learning of the rising generation

Project Legacy is not their only effort. It will lead to other programmes, adding to the development of each new generation, as Andre explains:

We are now creating a new programme for carrying on. The original Project Legacy is now giving birth to two new programmes, one that is more focused in content and it's open for every family member and another one that is more focused on the business so we want to capture these experiences these other family members have, but cannot give it back because they are running their own businesses … my brother, for instance, works for JPMorgan, my cousin, Mauricio, works in a commodities company, we do have a real estate company … and everybody is scattered in a different business … so we want now to capture their experiences and bring it back to the business. We, ourselves, are going to present the business as we run it today and then they are going to evaluate and fix it and we'll have some assemblies and webinars and things like that. We want to capture their experience and bring it to the family business.

Marcelo commented:

With the pandemic we are discussing new projects, Project Future, that we are telling, and communication and the main topic is to continue this formation and this training, and we are having online classes, webinars to tell the story and the next webinar will be an interfamilial webinar … we are inviting another large multi-generational family from Recife to join and exchange experiences with us.

What can we learn from this history?

The five-generation, 100-year journey of the Tavares de Melo family is a story of each generation adding both financial and non-financial wealth to the family enterprise. Each generation built upon the legacy values and success of their parents, as they took the family and its business in new directions. From sugar mills to business conglomerate, we see some themes that are shared by all the generations that may be the foundation for their success.

In the introduction we shared four principles they see as accounting for their success at continual development in each generation:

- A strong positive family culture of cooperation and common purpose starting in their first generation;
- Family members that know and deeply trust each other;
- The ability to anticipate and face new realities, make decisions that may depart from longstanding features of their business;
- Involving new leaders in each new generation and passing leadership across generations without losing the wisdom of the older generation.

These are continuities that lead back to the original vision of Arthur and Helena, that were internalised and remembered by each successive generation. But the world changed radically, many times, in their century of development. We end their story with four observations of what they did to thrive across generations.

Challenges never end. A family can never coast and relax very long before they must consider new ways. Every generation faces crises and must reconsider what has worked for many previous years. The family was able to anticipate and innovate continually, sometimes before a crisis. Each generation was able to reinvent the family enterprise in some radical ways.

To understand their success, we must look at their story as an evolution. Each business challenge and the emergence of a new generation led the family to make huge choices and enter new territory. They would not have succeeded if they were not resilient and continually rethinking what they did. We can see that the family office was an almost inevitable consequence of their business choices, as their success produced liquidity, diversification and increasing numbers of family owners. By choosing to have each family member to make choices about what to invest in, the family office, and its board of directors, became a family enterprise centre.

Their governance operated according to legacy values set in the first generation. But to evolve, these values had to be examined, updated and reaffirmed by each generation. The values continue but they must be implemented differently. The basic trust and cooperation of one generation must be actively learned by the next generation through a long period of apprenticeship and learning. Trust and cooperation arise from working together and each generation must learn that again. The family has invested time and energy in preparing and teaching the members of each new generation, and when their time comes the older generation has been ready and willing to step aside and make room for new leaders.

Governance must evolve with the family. Governance is the organisation of the family as a family and as a family enterprise. As the family grows in number and the business grows in size and complexity, in each generation governance has to be revised and developed further. From a few simple business principles and basic communication and family meetings the family has developed a complex and multi-faceted family governance organisation.

From the story of the Tavares de Melo family, other families who are not as far along can be inspired but also learn the enormity of the task that is faced by a family enterprise that seeks to thrive for many generations. We can look back at the cooperation and trust of the second generation of brothers, and how this was a model for development for their children and grandchildren.

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