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## The Rules of Succession

Among the many repercussions of the News Corp. phone-hacking scandal, the most mysterious has been its effect on Rupert Murdoch's children. Their 80-year-old father's double-edged dream of dynasty has dominated the lives of three of the six: the Australia-based Lachlan, the well-networked Elisabeth, and the currently embattled James. But the balance of power continues to shift, with Rupert's third wife, Wendi, a formidable x factor, and his second wife, Anna, still weighing in. Talking to News Corp. and family insiders, Sarah Ellison discovers how the Murdochs coalesced and splintered as the crisis raged, and assesses the complex allegiances that remain.

By [Sarah Ellison](#)



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**GAME OF THRONES** The widening phone-hacking scandal in Britain has opened divisions in the Murdoch family and cast orderly plans for dynastic succession into doubt. From left: James Murdoch, 38; Lachlan Murdoch, 40; Rupert Murdoch, 80; Prudence Murdoch MacLeod, 53; and Elisabeth Murdoch, 43.

**I**t was the middle of July, and Rupert Murdoch sat next to his son James in a packed room in the vast parliamentary complex at Westminster. They had been summoned to answer questions about the phone-hacking scandal that had erupted at one of Murdoch's most notorious tabloids, the *News of the World*. Members of Parliament had never questioned a Murdoch, much less two of them, in such a setting, and Rupert, now 80, appeared so frail and confused that many commentators wondered if his apparent weakness was simply an act.

It was not. He had arrived from Sun Valley, Idaho, and was weighed down by jet lag; by a recent confrontation with both James and his daughter Elisabeth; and by the sheer volume of responses he had been made to rehearse. By the time he arrived at the hearing, Murdoch had accepted the resignations of some of his most loyal lieutenants. He had closed the newspaper that had opened up Britain to him, 42 years earlier. And he had abandoned a business deal that would have been the largest in his company's history. When an M.P. asked Murdoch if he believed that the notoriously competitive pressure from the top of his organization had caused people at his newspapers to break the law, Murdoch said no, and then added what seemed like a non sequitur:

"I just want to say that I was brought up by a father who was not rich, but who was a great journalist, and he, just before he died, bought a small paper, specifically in his will saying that he was giving me the chance to do good." The M.P. tried to return to his question, but Murdoch pressed on. "That just addresses the question of it being a family business," he said. "I would love to see my sons and daughters follow if they are interested."

Among all the hours of testimony, that comment was one of the least significant in the eyes of anyone looking for insight into the origins of the phone-hacking scandal. But it was the only comment that mattered to his family—and sounded almost like a plea. Rupert Murdoch, one of the most polarizing media figures of our time, has always talked about News Corp. as a family business. He raised his children to value themselves based on their place in the company, and whether and when they might succeed him. So it was fitting that his family gathered around him those weeks in July, when the whole thing seemed like it might be slipping away.

Two weeks earlier, Lachlan Murdoch, Rupert's oldest son, had been with him at Herb Allen's annual retreat for media moguls and Wall Street tycoons in Sun Valley. Rupert arrived just as the story broke of Milly Dowler, a kidnapped and murdered girl whose cell phone had been hacked by the *News of the World* in 2002. The story set off a media firestorm. Inside the seemingly unified Murdoch family, it broke open tensions that had been simmering for months. And it forced the patriarch to face the possibility that he might be the last Murdoch at the helm of his own company.

Rupert and Lachlan huddled together in Sun Valley for most of the week following the Milly Dowler revelations. They avoided the press and almost everyone else. James was on the phone from London continually. So was Elisabeth, who also lives in London. Murdoch had described the phone-hacking allegations as "deplorable and unacceptable," but seemed inclined to do little else. He had voiced support for Rebekah Brooks, the C.E.O. of his British newspaper division, News International. Elisabeth told him that Brooks needed to resign. Later in the week, James called his father to propose something that once would have been unthinkable. James believed that to contain the crisis it would be necessary to close the *News of the World*. The paper's advertisers, who were being hounded by News Corp.'s critics, had been evaporating. The paper was dying anyway—so why not kill it? Rupert hesitated, then approved the decision and quickly made plans to fly to London.

Shortly after his arrival in London, the adult children—James, Elisabeth, and Prudence, with Lachlan on conference call from Sydney—gathered with their father. They discussed Rebekah Brooks and Les Hinton, the current and former News International C.E.O.'s, and whether either should resign. Rupert's views were clear: "I don't throw people under a bus." Amid the pressure, tensions between Elisabeth and James bubbled over. Elisabeth blamed her brother for allowing the phone-hacking crisis to spiral out of control. After the meeting, Elisabeth approached her father and urged him to take control of the situation. She

said Brooks and Hinton needed to resign (they eventually did), and that James needed to take a leave. Rupert was open to the idea—he and James had been at odds for months. Elisabeth had been urging her father to step in. The next morning, Elisabeth, at her father's suggestion, confronted James and said he should step aside and let Rupert handle the crisis moving forward. The suggestion infuriated James—he had been shouldering the responsibility for something that happened before he was even in charge, he said. Everyone needed to pull together. Rupert summoned Brooks and told her she should take a leave. He called Hinton and asked him to come to London. Rupert then spoke to James and suggested that he take a leave—"Maybe you should go, too," he said. But after a sleepless night he changed his mind.

The phone-hacking scandal has had many repercussions. It will live on in criminal investigations, lawsuits, and judicial and parliamentary inquiries for years to come. The most mysterious consequence is what it has done to the Murdoch family. The family owns 12 percent of News Corp.'s shares, but controls 38 percent of the company's voting power through a block of class B shares. That gives them effective control over any major corporate decisions. Rupert, Lachlan, and James all sit on the board. Nine of the 16 board members are independent, meaning they are not executives of the company or members of the family—and they are facing criticism from restive shareholders. Although Rupert Murdoch has frequently said that he would like one of his children to succeed him at the head of News Corp., he has never formally embraced a succession plan. Asked once at a shareholder meeting about when he would announce plans for his succession, he said that he would do so "shortly after my death."

One of his former executives has recounted how, when Rupert was 76 and had just completed his acquisition of Dow Jones and *The Wall Street Journal*, someone gingerly raised the topic of succession. Rupert visibly stiffened when the proposed time frame was 10 years. He shook his head. The discussion shifted to 20 years. He furrowed his brow. Then, finally, it moved to 30 years. He seemed to relax. Yes, 30 years seemed like a reasonable time horizon, when he would be 106. Rupert's mother, Dame Elisabeth, is 102 and still alive and vigorous. Until the phone-hacking scandal hit—"These kinds of things take years off your life," one of his executives told me—he seemed to many who worked with him almost immortal.

Depending on whom you speak to, the state of Rupert's relationship with his adult children varies wildly. He is both too indulgent and too insensitive. He is disappointed in them and enormously proud. He can't fathom letting go of his power, and yet he dreams about their taking over one day. For "the kids," the term by which they are known inside the company, their father holds the same fascination he holds for the broader public. He is compelling; he is maddening. Over the years, he has bailed the children out, pushed them to the side, and been an object of love, resentment, and, most recently, sympathy. In their minds, the nagging question has often been: Which does he love more, his family or his company?

## **"Us Against the World"**

**R**upert Murdoch has fathered six children in the course of three marriages. He married his first

wife, Patricia Booker, in 1956, and they had one daughter, Prudence, before divorcing. Prudence lives today in Australia, avoids the spotlight, and takes no role in her father's company. (One person in the News Corp. circle described her as the Pete Best—the "fifth Beatle"—of the Murdoch family.) Murdoch then married Anna Torv, a Scottish journalist who worked for him in Australia. They had three children: Elisabeth, Lachlan, and James. The marriage to Anna lasted more than 30 years. In 1999, 17 days after finalizing his divorce from Anna, Murdoch married Wendi Deng, a Chinese-born staff member at his Star TV operation, who is 38 years his junior. They have two daughters—Grace, 10, and Chloe, 8.

Roughly a year prior to his appearance before Parliament, Rupert Murdoch had begun to contemplate his latest—and, one must think, given his age, his last—attempt to put his dynastic house in order. His plan was to bring his adult children from his second marriage into the company and give them each a functional role. James would be the deputy chief operating officer, learn the creative side of the movie and television businesses, and then eventually take over from his father. Elisabeth would continue to run her production company, but now from within News Corp., and would be the programming genius. She would also join the board. Lachlan was more complicated. Nothing was set in stone, but Rupert hoped that

Lachlan might stay in Australia, which he loves, but come back to News Corp., which he had left in 2005, and run the Australian division.

The phone-hacking scandal has thrown those plans into disarray and raised the prospect of a future News Corp. in which there could be, in the words of someone close to the family, “a continued diminished role of people named Murdoch in the company.”

Named after Rupert’s mother, Elisabeth is the child with whom Murdoch has “struggled most,” a longtime Murdoch associate told me. “He never considered her as a successor, but he didn’t want her out on her own. There is an element of male chauvinism. Fathers love their daughters, but they never take them seriously.”

Born in Sydney in 1968, Elisabeth had a nomadic youth, shuttling from Britain to the U.S. to Australia. “We’ve always been immigrants,” she told me when I interviewed her a few years ago. “It was us against the world. If everything else goes wrong, we still have each other.” In 1974 the family moved to the United States. In New York, Elisabeth attended the Brearley School. She grew up like other girls in the privileged circles of the Upper East Side, but there were times when it seemed difficult to escape her father. An old high-school boyfriend of Elisabeth’s told me that she once let slip that she knew some personal details about his family that he had yet to tell her. When asked how she could possibly have known that information, she confessed with embarrassment, “My father checked you out.”

Within the family, Elisabeth and Prudence often fought, as sisters do, but they became closer as they got older. After Rupert paid around \$600 million to buy out the share of News Corp. held by his three sisters—to consolidate his control over the company—Elisabeth and Prudence would “bitch to each other that all our cousins had a lot of money and we didn’t,” Elisabeth said.

Elisabeth went to Vassar, where she met her first husband, Elkin Pianim, the son of a well-known Ghanaian economist. They married in 1993, when she was 25, with Pianim’s parents in traditional robes and the Murdochs in black-tie. It was not what Rupert had in mind. But he backed a \$35 million loan, enabling the couple to buy a pair of NBC-affiliate television stations in California. The stations did well, and after only a year and a half were sold for a \$12 million profit. Elisabeth planned a move to London and her first job in her father’s orbit.

In London, Elisabeth worked for BSkyB, the satellite-broadcasting company in which News Corp. had a stake. It would be the first occasion on which one of the Murdoch children came into direct conflict with managers of the company. “She arrived at Sky as a very unformed individual,” a former News Corp. executive recalled. “And it really pissed off the top executives there.” For her part, Elisabeth saw herself receiving the blame for everything and the credit for nothing. In 1997, she met Matthew Freud, a public-relations executive who came with his own dynastic baggage. He is the great-grandson of Sigmund Freud and the nephew of the painter Lucian Freud. Elisabeth and Matthew disentangled themselves from their spouses and pursued their own relationship. Encouraged by Matthew to step away from her father’s company and his executives, Elisabeth resolved to quit and start her own production firm.

In May 2000, with no small sense of the moment, Elisabeth faxed her father a copy of the press release announcing her resignation. She had given him no advance warning, and the fax came through to his assistant, Dot Wyndoe, who handed it to Rupert without a word. He called Elisabeth almost immediately, and the two of them “got into it” on the phone. Then she dropped the real bombshell: “Dad, you are so pissed at me now you might as well know I’m pregnant with Matthew’s child.”

“And that really did it, because Rupert hated Matthew,” remembers an executive who was with Rupert that day. “He didn’t react well.” Later, after the BBC reported her departure, Murdoch told a colleague, “She’s a very silly girl.” Although Rupert and Freud have reached an uneasy peace, “Rupert still doesn’t trust him,” one of the elder Murdoch’s longtime associates told me.

**E**lisabeth and Matthew were married in 2001. With her name and his connections, they launched themselves into an elite circle of politicians, celebrities, and socialites. Rupert always wanted to influence politics, but he didn't know how to maneuver socially the way his son-in-law did. One friend of the couple told me that when Rupert came to town "Matthew would tell [Prime Minister David] Cameron, 'Oh, Rupert really wants to see you.' And he would then tell Rupert that Cameron really wanted to see him. When the two got together, they had nothing to say."

Matthew and Elisabeth are members of the so-called Chipping Norton set, a tiny but powerful clique of politicians, businesspeople, and media stars who all have country houses in various Cotswolds hamlets. The group includes Prime Minister Cameron, former News International chief executive Rebekah Brooks, and television host Jeremy Clarkson. Elisabeth and Matthew hosted Barack Obama's London fund-raiser in 2008.

Elisabeth is arguably the child who has been the most successful completely on her own, building Shine, which is responsible for hit shows such as *The Biggest Loser* and *Master Chef*, into a leading production company in the U.K. "I've had to hold something he can't take away from me," Elisabeth told me. And yet both she and her father feel one another's gravitational pull. Rupert told *The New York Times* in 2003, "She will probably sell Shine for a bloody fortune to someone. And then she will come knocking on the door, and she will be very welcome."

In fact, the bloody fortune came from Rupert himself, and he now faces a lawsuit from Amalgamated Bank, a News Corp. shareholder, over the allegedly inflated price he paid for his daughter's company. The purchase price has a history. In expanding Shine several years ago, Elisabeth had taken on Sony as a 20 percent partner. The idea originally was that Shine would be Sony's U.K. production arm. But as Shine became more and more successful, and set up joint ventures and productions outside the U.K., Sony found itself in competition with the production company. In 2008, Michael Lynton, Sony's C.E.O., told Elisabeth that he wanted control of Shine, or he wanted to sell. The two sides agreed on a value for Sony's stake. But then the financial crisis hit, leaving Elisabeth stuck with a price tag no one would pay—except her father. The \$675 million that Rupert put down values Shine at roughly 12 times earnings before taxes. (In contrast, All3 Media, which is bigger than Shine but is nonetheless a comparable production company in London that makes reality shows such as *Undercover Boss* and *Ramsay's Kitchen Nightmares*, recently abandoned efforts to sell itself. All3's parent company, a private-equity firm named Permira, couldn't attract offers above eight or eight and a half times earnings before taxes.)

Prior to the News Corp. board's approval of the deal to purchase Shine, Elisabeth appeared in front of them in New York. "Liz made it very clear to everybody that she was not interested in being successor, that this had no impact on succession, that she was there to run Shine and only Shine," someone who witnessed the presentation told me. "James was in trouble. People wanted to know what was going on. Liz is talented and very ambitious. Why is she coming back into the fold if not to claim her rightful position?"

As part of the acquisition, Elisabeth agreed to take a place on the News Corp. board. When the phone-hacking crisis reached its peak, she went back to the board and told them she wouldn't take her seat after all. She felt it would be better for the company to have fewer Murdochs. There was another reason: her lawyers and her husband advised her that it was best to not take the seat, in order to stay as far away from the scandal as possible.

## **Fool Me Twice**

**I**f the understanding was that Elisabeth could never succeed her father, Lachlan Murdoch grew up as the heir apparent. “There was always a lot of expectation on Lachlan,” Elisabeth told me. “It was a lot to live up to.”

Lachlan was born in 1971, in London, and attended a series of private schools. He went to Princeton. Blond, handsome, and athletic, with a tattoo on his arm, he is often described to me as a “guy’s guy.” Lachlan became the general manager of his father’s Queensland Newspapers at 22, the same age Rupert was when he took over the paper his father had left him. During the next six years, Lachlan embraced his father’s Australian heritage and love of newspapers, and the executives at the company returned his embrace. He married a model, Sarah O’Hare, and started a family. (They have two sons and a daughter.) By 2001 he was back in New York full-time and living in a \$3.5 million apartment near his father’s newly renovated SoHo triplex.

His new job was as deputy chief operating officer of News Corp., reporting to then chief operating officer Peter Chernin. He had also been named publisher of the *New York Post*. Much as he was admired in Australia, he was mocked in New York. His father’s executives called him “the prince” behind his back, and two of Rupert’s most powerful and established deputies were always in the way: Chernin, whose Hollywood connections were formidable, and Roger Ailes, the creator of Fox News. “Peter Chernin would not let him get involved in Hollywood, and Roger Ailes would not let him get involved in anything,” a former executive told me. Father and son clashed over whom to hire for even mid-level managerial positions.

Lachlan’s frustration came to a head at the very time that Wendi Deng, Rupert’s third wife, was insisting that her two young children with Murdoch be represented in the family trust that controls News Corp., just as the grown children were. When Rupert divorced Anna, in 1999, Anna gave up her claim to half the Murdoch fortune in order to ensure that Elisabeth, Lachlan, and James, together with her stepdaughter, Prudence, would be guaranteed control of News Corp. In the settlement, Rupert got four votes in the trust and each of the children got one vote. The suggestion that Wendi’s children should have some kind of voting representation was opposed by the adult children. In the end, each of the Murdoch children, including Wendi’s, received a \$150 million disbursement from the trust. But the young girls received no votes—a final stand for Anna’s sacrifice. It was against this backdrop that Lachlan’s professional relationship with his father disintegrated.

Lachlan quit his job and moved back to Australia. The move shook the entire family. The likelihood of a smooth succession had been derailed. Lachlan attempted to set up a new business venture; it failed. He gained weight and grew a beard. Slowly, he has reclaimed equilibrium. Much as Elisabeth and Matthew are at the center of a London society scene, Lachlan and Sarah are their equivalent in Sydney. His friends describe him as happy, and he has invested, through his company Illyria, more than \$250 million in television, radio, and print businesses in Australia. He was recently named interim C.E.O. of Ten Network Holdings, the owner of Australia’s third-largest broadcast network, where he serves on the board. In Sydney, the couple are a little like the Australian celebrities—Nicole Kidman, Hugh Jackman, Baz Luhrmann—they count among their friends. Sarah graces magazine covers, and is the host of *Australia’s Next Top Model* (though she famously announced the wrong winner last year). Lachlan, slim and shaven, appears at her side at countless social events and fund-raisers.

“Rupert has always wanted Lachlan to come back,” a longtime executive said to me. “That’s not a news flash. I just don’t think Lachlan will ever come back. It’s a ‘fool me twice’ kind of thing. ‘Come on, Lachlan! You have the perfect life. Give it up, and if you come back and it doesn’t work out, then you will be really humiliated.’ Who would take that deal?”

But Lachlan remains loyal. Except for a couple of years after his departure from News Corp., he has always attended the Sun Valley media conference with his father. During the most recent trip, this July, he fell ill and flew home. Only after Rupert asked James to take a leave from the company did it become obvious to James that the family was going to need extra help to get through the ordeal ahead. James

called his brother, and Lachlan turned around almost immediately after landing in Sydney and headed to be with his father.

“He made sure Rupert was rested and had meals and acupuncture, and was very supportive,” a family adviser told me. The week before the parliamentary hearing, James called for formal meetings of the full group of lawyers and public-relations executives in the company’s new London offices. Then a smaller group retired to a house in the country to work and prepare and sleep. “It was very, very, very, very intense,” the family adviser said. “There were banks of paparazzi everywhere you went.” Through it all, Lachlan stuck by his father and was a calm presence compared with Elisabeth and James.

“I think Lachlan wants to be above it all. He’s looking at this as purely a family issue,” a News Corp. executive told me. “This has nothing to do with him professionally.”

## The Death Star

**L**ike his sister, James Murdoch grew up knowing that it was unlikely he would ever succeed his

father. Lachlan had beaten him into this world by 15 months. People who know James say this gives him a certain brittle edge—whether from resentment or anger—that his brother doesn’t possess. Unlike Lachlan, who served his time at journeyman newspaper jobs while growing up, James showed a decided lack of interest in the family business. At 14, during an internship at his father’s *Sydney Daily Mirror*, James fell asleep during a press conference, an image caught by a photographer for the rival *Sydney Morning Herald* and gleefully printed.

James went to Harvard, where he was admitted into the Porcellian Club and drew cartoons for the satirical *Lampoon*. A life of unthinking privilege often gives rise to rebellion. A tattoo of a lightbulb on his right arm, pierced ears, dyed hair worn long—these were among the ways in which James did battle against his surname. He was also a little geeky; he knew his way around the Internet back before the Internet was cool. In 1995, James decided to leave school. He started a record label called Rawkus with two friends, James providing the capital and the friends providing the street-savvy public image. Rawkus is a hip-hop label, and most notably produced Mos Def before he was famous.

At the Rawkus office in New York, James hung a poster of Chairman Mao on his wall. (The statement unwittingly—or maybe not—mimicked his father’s own political evolution: at Oxford, Rupert had kept a bust of Lenin in his room.) The next year, 1996, Rupert bought a stake in Rawkus, and then two years later acquired 80 percent of the company for a price (estimates vary, but start at \$20 million) that barely registered for News Corp. but that appeared vastly inflated to rival music executives. The acquisition brought James into his father’s company, and his first role was to run News Corp.’s tiny music division. Then Rupert handed him a larger role, to help scout out investments in the still-new Internet space.

“His father really seduced him by buying the record company and then giving him new media,” a former News Corp. executive recalls. James was still evidently eager to show his independence from Pop. “There was a big retreat, 200 to 300 executives from around the world, and James was up onstage talking about new media, and he was critical of his father. He said something to this effect: ‘You’ve given me this new-media opportunity, but you’ve given me no money and no staff, and this is a bullshit job.’”

In 2000, Rupert made James C.E.O. of News Corp.’s Asian satellite-TV business, Star, which was struggling. James was newly married to Oregon-born Kathryn Hufschmid, a regional marketing executive at Louis Vuitton. In Hong Kong, he helped turn a profit at the previously money-losing Star. He struck new distribution deals in India, China, and Taiwan. This was a turning point for James, the moment when he started to throw himself into the business and win some respect.

**A**ppointed to be the C.E.O. of BSkyB in 2003, at 30, James faced cries of nepotism and was

pilloried for being young and inexperienced. He embraced News Corp.'s outsider status, installing a life-size statue of Darth Vader outside his office, to play on his rivals' jokes about the company's being "the Death Star." Socially, Elisabeth took him under her wing in London. They crossed paths professionally as well; at BSkyB, James commissioned programming from Shine. He excelled at his job. He embraced the technological side of the business and signed up a record number of new subscribers to Sky by offering broadband Internet, satellite television, and telephone service in one package. Then, as Rupert was making his plans to buy Dow Jones and *The Wall Street Journal* and focus on the newspaper business in New York, he elevated James to run all of Europe and Asia. James went about setting up his own company—really just a division of his father's—in London.

"The whole idea of giving James Europe and Asia was to give James expertise with the newspapers. It was primarily about newspapers and a strategy for the future of the company," a former executive told me. Before James, every executive function had reported directly back to New York. James sought to wrest control from New York, and from his father, and to update the old-school methods of his father's executives. Tensions between father and son were obvious to everyone.

Where Rupert was laconic and instinctual, James was high-energy and disciplined, his staccato speech often peppered with management theory and business-school lingo. The veterans rolled their eyes at James's use of terms like ARPU and R.O.I. in everyday conversation. One area remained uncontested. The top executives at the U.K. newspapers reported to James, but they belonged to Rupert. "Newspapers were a different animal in the U.K. They were Rupert's."

Soon after James took over the business, he called the entire executive committee of News International together. He had been listening to the newspaper heads talk about how to manage their declining circulations. He put up one slide with large lettering that read, GROWTH. He then gestured to a chart of the projected falling circulation numbers of the company's newspapers over 10 years. "Let me ask you one question," he said with a nod to the endpoint of the declining graph. "Do you want to work here? I wouldn't want to work here. We have to figure out how to grow this business."

In one of James's first and most fateful decisions, he signed off on a legal settlement in June 2008 with the soccer executive Gordon Taylor, who had sued the *News of the World* for hacking into his cell phone. At the time, the meeting that James had with the *News of the World* lawyer, Tom Crone, and the newest editor of the paper, Colin Myler, seemed like a small matter. James felt he was following the lead of his executives, who recommended settling the suit.

The meeting has become central to James's credibility. Both Crone and Myler have testified that they told James about an e-mail transcript in that meeting that implicated another journalist in phone hacking, beyond the "rogue reporter" on whom the company had pinned the practice. James has testified to a parliamentary committee that they didn't alert him to the e-mail. It turns out, according to a previously undisclosed e-mail in which Crone was briefing Myler on what they would present to James, that the two had agreed to talk to James about a "transcript of voice-mail messages" that was devastating to News Corp.'s case. The e-mail doesn't mention the name of the additional *News of the World* reporter implicated by the transcript, Neville Thurlbeck, nor does it say that phone hacking was widespread. Still, it adds credence to the notion that the men did tell Murdoch what they claim they told him. However, because the e-mail didn't mention Thurlbeck by name, executives inside the company maintain that the e-mail supports James's version of events. The parliamentary committee has recalled James to give further testimony, which he is expected to do on November 10. In America, the Justice Department is investigating alleged payments to police by *News of the World* reporters to determine if the company has violated the Foreign Corrupt Practices Act. Regardless of the results of the investigations, James will forever be linked to phone hacking.

**I**n June 2009, James appointed Rebekah Brooks, then the editor of *The Sun*, to be C.E.O. of News

International, overseeing the company's four U.K. newspapers. Rebekah was Rupert's protégée, the epitome of the type of tabloid editor he adored. She became a key liaison between father and son, talking to both almost daily and smoothing over their disagreements and radically different styles. She had not yet officially taken her position in July when *The Guardian* newspaper ran an explosive story that revealed the details of the Gordon Taylor settlement and alleged the existence of thousands of other potential phone-hacking victims. But Brooks issued a multi-page rebuttal of the story, going point by point through its supposed inaccuracies.

Over the next two years, James stood by while his executives issued repeated denials of phone hacking at the *News of the World*. Rebekah Brooks wrote to the parliamentary committee investigating phone hackings to say that *The Guardian* had "substantially and likely deliberately misled the British public." Executives and editors only reluctantly handed over evidence to police. "He wasn't forensic about it, was he?" a News Corp. executive told me, referring to the internal investigation into phone hacking. "Not in 2008 with the meeting with Myler and Crone, and not later in 2009 when the *Guardian* story came out."

The phone-hacking story took years to unfold. Meanwhile, James was making his presence felt in Britain. He broke with his father's preference for the sitting prime minister, Gordon Brown, and endorsed Conservative David Cameron for the job seven months before the election. He stormed into the office of *The Independent* newspaper, which had run an ad attacking his father, and with salty language demanded an explanation from Simon Kelner, the paper's editor. He delivered a lecture at the Edinburgh International Television Festival in 2009 that lashed out at the BBC and the state of British media regulation. Internally, James was outspoken about what he saw as the flaws of some of his father's executives. Less than two months after Cameron was elected prime minister, News Corp. launched a bid for the 61 percent of BSkyB that it didn't already own. The acquisition would have been the largest in News Corp.'s history.

In February of this year, News Corp. announced that James would return to New York to become the deputy chief operating officer of the company, reporting to C.O.O. Chase Carey. At the time, Rupert was seriously considering giving up his C.E.O. title and wanted Carey to "groom" James for the job. Lachlan, Prudence, and Elisabeth had discussed the move extensively with James. The siblings had been in family counseling with a psychologist over the issue of succession. They told James that if they worked together as siblings they could help him and their father have a better relationship, and that together the kids could hold Rupert to account to be a mentor to James and not undermine him, as he had done with Lachlan so many years before. For his part, Rupert felt that James, while a talented executive, needed to learn to exercise better judgment and exhibit some humility. Together, the siblings agreed that James was the best-suited to be the heir apparent, but they also agreed he had to stop being so aggressive and alienating in his public postures. Rupert's manner had always been more subtle. The appointment of James as deputy C.O.O. was interpreted as James's official anointing as his father's successor. But it was also something else. It was Rupert calling time on the uneasy power-sharing agreement that had existed between London and New York during James's tenure as C.E.O. of Europe and Asia. "The seminal conversation was when Rupert said to James, 'You are coming back now to New York as deputy C.O.O. You are going to disband News Corp. Europe and Asia, and you are not bringing any of them with you,'" a senior executive at the company told me. "'Or you are fired.'"

There is an interpretation in some quarters of the company that if James had been able to institute some of the processes and management structures his father's executives derided the phone-hacking scandal might not have spiraled so far out of control. Perhaps. But it is also true that James's own actions—approving payoffs to victims, and the payment of legal fees for people who might talk—became part of the problem. One friend of the family in London encapsulated the predicament nicely: "James wouldn't have gotten anywhere near where he is without it being a family company. But he wouldn't be as fucked as he is without it being a family company. He was staring at malfeasance that occurred under the nose of his father's best friends."

## Counting Votes

**T**he week before the parliamentary hearing, Prudence had flown from Sydney to London. Anna, Rupert's second wife, had flown to London from New York to support the children. "Anna is very much a kind of glue to that family," a top executive told me. Anna and Rupert hardly speak. She is protective of her children, and often angry at her ex-husband. She was devastated by the divorce and described her recovery from it as "coming out of a deep mental illness." But as she watched the political attacks on James and heard talk of a possible arrest and jail time, she urged her ex-husband to publicly back his son. He did so, but in a way that had the opposite of the desired effect. That week, *The Wall Street Journal* had contacted Rupert to ask about rumors that James might step down as chairman of BSkyB in order to distance the company from the phone-hacking scandal. Without consulting his son, he returned the call and said that News Corp. had handled the crisis "extremely well in every way possible," making only "minor mistakes." In the same interview he said he was "just getting annoyed" by the negative headlines of the recent days. "I'll get over it. I'm tired."

The statements only fueled the anger of politicians and News Corp. rivals in London. Even as Rupert spouted off, James was working with his communications chief on the corporate response—a set of advertisements to run in all of Britain's daily newspapers with an abject apology for the scandal. It hardly squared with Rupert's cavalier attitude. Rupert kept doing things that didn't help the cause. Despite explicit advice not to, he took a walk around Mayfair with Rebekah Brooks shortly after arriving in London. He responded to a question about his first priority by pointing to Brooks, saying, "This one." That same week, Elisabeth was quoted in the *Telegraph* as being overheard at a Freud-hosted dinner party saying Rebekah had "fucked the company." But according to someone at the dinner party, she was directing her ire at her brother's handling of the crisis.

For Murdoch, the Platonic ideal of succession must seem a long way off, if not beyond reach, thanks to the widening scandal. Instead of gathering around the boardroom table with his children to discuss his beloved business, he is firing his favorite executives and hearing his business likened to a criminal organization, which parts of it may well have been. Elisabeth won't join the board. James's reputation will be tainted for a long time to come. Lachlan shows no signs of wanting to return to the company. Which is all very sad for Rupert Murdoch, unless one subscribes to the view that he never really intended to cede his position at all—that his plan was simply to continue on in his role, working exactly as he has for many more years. If he does so for long enough, his daughters with Wendi, Grace and Chloe, will eventually become a factor. Even now Wendi is a formidable presence. She holds no official role in the company and wields no votes in the family trust. But she is smart and ambitious, and has Rupert's ear—and his back. It was her quick reflexes that deflected a would-be assailant who attempted to attack Rupert with a shaving-cream pie during the parliamentary hearings. Wendi is an undeniable x factor in any discussion about the future.

**I**nside the family, and the company, there is a sense that James could nevertheless survive and eventually become C.E.O., though even his most ardent supporters admit that when and if Rupert does decide to step down it will likely be Chase Carey who takes over first. So, where would that leave the rest of the kids?

"It's really simple," a close confidant of the family told me. "If you hold the company together, what Lachlan would want is to be the chairman. James would be C.E.O. Prudence doesn't want anything and Liz is the odd person out. As long as that's the way Lachlan looks at it, she's got no real shot. Lachlan has real leverage, because he doesn't really want very much, but he has a significant vote. If that was the only way to stay as C.E.O., James would do it."

Such handicapping is tempting for company executives, who have watched as their own fates are buffeted by the family's succession plans. There is undoubtedly an element of it within the family—of wondering who will end up where in the corporate hierarchy. But these are also children struggling with the weight of their father's legacy. They feel they must protect him, and at the same time protect themselves from him.

James has started spending much more time in New York, though his family will likely finish out the school year in London before joining him permanently. According to several executives, James appears to be putting his head down, working hard, and trying to go about business as usual. "He's gone through a terrible, difficult period where his reputation has been damaged, but not his capabilities and not his performance and not what he brings to the company," an associate explained. "He's not one to run away from problems." His relationship with his sister Elisabeth appears broken, at least for now. Sometimes the tensions between the siblings are on most public display through the comments of their spouses. When I was in London I spoke to several people about the antipathy James's wife, Kathryn Hufschmid, has for Elisabeth's husband, Matthew Freud. "She detests Matthew with a passion," one of them told me. Though Elisabeth has told friends, not to mention the board, that she herself has no interest in succeeding her father, she clearly has an opinion about how somebody should go about succeeding him. Lachlan remains wary of returning to News Corp. "He moved to Australia to prove himself," said someone close to him. "He doesn't feel he's done that yet." Prudence does not have any ambitions to rise within the company, but favors peace with her siblings. They all have equal votes in the trust, so will remain tied to one another for a long time.

Even after all the tension of those weeks in London, the family is still a family. They recently gathered on their yachts off the coast of Ibiza to celebrate Lachlan's 40th birthday. Despite calls from major pension funds and shareholder-advisory firms to vote the Murdochs off the board of News Corp., Rupert seems to be in denial that anything much has changed. Family members still see a future—through their nearly 40 percent voting control of the company's shares—where they all could play an active role.

It is a scenario that Rupert could be happy with. "As long as the family works together and keeps the company together, he's fine with that," the family confidant said. "Until he's dead, and then nobody cares what he wants. Then they'll do whatever suits them best."