

The Family Office

Developing an effective strategy for trans-generational wealth

Building a family office is one of the best ways to protect and build trans-generational wealth.

Traditionally, the “Family Office” is the management process for services and investments that the family are involved in that are away from their core business. These investments are implemented and developed by the family as a result of a determined & aligned approach to a chosen strategy and the management & governance supporting it. However, the trend today is for the Family Office to be the management process for all of the Family’s business interests, including the core business. This provides the ability to sustain entrepreneurship and innovation over time while maintaining the enterprising values of the founders, which is a critical factor for a family ownership group that wants to create trans-generational value. Those families with an entrepreneurial focus are better placed to maintain a constant scrutiny of their environment by continuously screening opportunities and combining resources accordingly and by preparing and mentoring their family members from the very beginnings. The notion of the Family Office applies equally to those families that still own their main operating business and expand beyond its core holdings, and also to those families that no longer own their primary business and decide to manage the family’s assets collectively as a core operating business.

“ ... the notion of a better future for the family, with the operated business as a vehicle to help achieve the desired future for the family.”

We Shall Overcome

The old, traditional ownership model on which the original sources of the family’s wealth were built can sometimes collide with new, more entrepreneurial approaches that surface as a result of different family-driven and business-driven forces as well as new opportunities that are created by an ever changing global environment. New, entrepreneurial approaches, might include:

- developing a dynamic business and portfolio strategy
- governance of the strategy
- building a new business development capacity
- employing new, more flexible approaches to ownership structures to take advantage of new opportunities,
- creating an investment unit or a family office to manage on a collective basis the investments, ventures and specific services

When developing an entrepreneurial family, the pace of change in global markets can sometimes leave little room to stop and plan for succession or wealth transfer. However, entrepreneurial families must address the balance between implementing or enhancing effective governance structures and preserving & cultivating the entrepreneurial spirit among the generations throughout the different phases of their lives.

Family business entrepreneurs are often thought to be a unique category of entrepreneurs in that they create and develop businesses with the purpose of capturing economic value but also of building an enduring family project and legacy. Succession is not only a process of the replacement of one family generation by the next but it also involves a process of strategic or organisational change. Such change calls for an enterprising behaviour that has significant implications for the growth of the family’s wealth and the sustainability of the business over time. Furthermore, the family’s values and aspirations then shape the family’s entrepreneurial behaviour, and this has to be maintained to create wealth across generations.

The Stigma of The Family Business

In the family business field the topic of succession has traditionally been associated with division reconciliation or conflict resolution. Consequently, the implementation of a “family office” tends to involve new challenges in reconciling family and individual conflicting interests; that is the integration between the need for business continuity and the need for personal independence. The development and implementation of a Family Office follows the entrepreneurial process. Many family ownership groups may be involved in this gradual decision making process and they may be faced with a path that is characterised by conflict, uncertainty and a high level of complexity. However, by taking an entrepreneurial approach, some of the problems associated with succession can be overcome using entrepreneurship theory. This conceptual line of attack draws on the strategic management, entrepreneurial strategy and financial perspectives. The development of a Family Office is an entrepreneurial action that is taken with a strategic perspective to create trans-generational wealth. As an entrepreneurial strategy, the development of a Family Office is a manifestation of a family vision-orientated, entrepreneurial approach that constantly shapes the management of the family’s assets and determines the nature and range of its operations by means of a systematic identification and exploitation of entrepreneurial opportunities for wealth acceleration purposes.



Building the Family Office

Research has shown that firms facing rapidly changing or competitive environments are sometimes better equipped to absorb the impact if they implement entrepreneurial strategies. External environmental conditions such as industry restructuring, market and product fragmentation, increasing competition or technological change have an impact not only on the dynamics of a family-owned business but also on the dynamics of the family itself. This leads to a set of internal triggers that may prompt the development and implementation of a Family Office. Thus the nature of some industries, markets, or product life cycles invites family firms either to redefine their business strategies in order to become more diversified, to access new opportunities or to change the ownership structure. This sets a breeding ground for new business endeavours. In parallel, multigenerational families facing the influence of external conditions, or the increased complexity as the family ownership group expands, leads to the emergence of new approaches to manage and sustain the family's wealth, giving rise to the exploration and exploitation of new opportunities to achieve success for the family. In other words, the Family Office has developed as a force of market or family circumstance.

By developing and implementing a Family Office, the family will not only sustain and grow their wealth over generations but will diversify risks, benefit from greater flexibility to take advantage of the flow of opportunities in a fast-changing economic environment, sustain the entrepreneurial spirit among generations, consolidate the family's unity over time and even gain social acknowledgment for the family.

Analysis of the interviews with 52 members from 32 different families with a

net worth in excess of \$20m suggests that the development of a strong family entrepreneurial culture over the generations is a powerful driver for the family to generate entrepreneurial activity and an opportunity-driven culture. The creation of a strong organisational culture based on the family's entrepreneurial values and beliefs facilitates the establishment of a Family Office since it contributes to a systematic approach to evaluate and pursue new opportunities. The system of values and beliefs of the family, such as the way value for customers is created, the duties and the rights of the employees and the meaning of what the business aims to achieve have a huge impact on the family and its activities.

A Family Office is particularly enabled by the presence of a clear family project for the long term. This is enhanced where the presence of an entrepreneurial strategic vision for the business is strongly aligned with the premises of the family project. This impels a strong opportunity focus but also facilitates the building of family consensus when either wealth management issues or the family's investments in new ventures are subject to a collective decision. The presence of a portfolio strategy for the businesses and investments at the core level act as a strong enabler for the family to collectively decide on other investments beyond the main holdings. The experience and track-record of the firm in designing a portfolio strategy is in most cases an unambiguous representation of a strong entrepreneurial culture and a well-defined family project which evolves into a real strategic approach. Multigenerational family firms are often able to build a diversified portfolio of lower risk companies with stable cash flows complemented with stakes in companies with higher risks and returns, and additional exposures through venture

THE ENTREPRENEURIAL PROCESS

**OPPORTUNITY
DISCOVERY**



RECOGNITION



**DECISION TO EXPLOIT
THE OPPORTUNITY**



RESOURCE ACQUISITION



**ENTREPRENEURIAL
STRATEGY**



**ORGANIZATIONAL
DEVELOPMENT**



PERFORMANCE

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The development of a Family Office is an entrepreneurial action that is taken with a strategic perspective to create trans-generational wealth.

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ENTREPRENEURIAL STRATEGIES

CULTIVATING ENTREPRENEURIAL CAPABILITIES

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When an organisation displays a systematic capacity to recognise and exploit opportunity it has nourished an entrepreneurial capability.

The recognition function and the exploitation function are both needed for an effective entrepreneurial capability.

This capability is essential if any company is to explore innovations in markets, products or technologies.

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capital and private equity investments. The goal is to gain the flexibility to redefine the portfolio continuously and thus take advantage of new growth opportunities for the family. For wealth management purposes, a strategic portfolio approach like this appears to be an extremely valuable “learning tool” or “infrastructure” for families seeking to develop and implement a Family Office. The presence of clear family agreements or an effective and balanced corporate governance system significantly influences the capability of a family to establish an Office. This is most relevant when the family needs to:

- reach a necessary consensus to implement investment activity in new assets whether or not related to their core holdings
- to purposefully build an internal unit for managing their investments, ventures and the services for the family
- to decide the use of the services of a external family office for such purposes
- to specifically make a decision about the scope of the family assets to be exposed, the scope of the involvement and the skill sets of those potential family members involved

An effective and balanced governance means a system of active governance bodies with objectives, processes and structures in line with both the business and the family’s stage of development. Multigenerational family firms show a strong ability to adapt their boards’ mission, structures and member profiles depending on the firm and ownership requirements over time. A calculated reaction to the need for an improved functioning of the board or governance structures as the venture grows and increases in complexity is needed. These decisions require active and effective family and corporate governance systems.

Entrepreneurial strategic visions are made possible when entrepreneurial processes of opportunity identification and

exploitation take place throughout the organisation. When an organisation displays a systematic capacity to recognise and exploit opportunity it has nourished an entrepreneurial capability. The recognition function and the exploitation function are both needed for an effective entrepreneurial capability. This capability is essential if any company is to explore innovations in markets, products or technologies. The presence of entrepreneurial mentoring and role modelling helps sustain the entrepreneurial spirit in family members and facilitates the development of a Family Office.

Investments, new ventures and services for the family are ultimately determined by the nature of the opportunities and the family dynamics.

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The information in this paper is drawn from pilot study research “From the Family Business to the Family Office: Understanding the Development & Management of the Family’s Other Investments, Ventures & Services (FIVS)” by Juan Roure, Ph.D. IESE Business School, Barcelona, Spain; Juan Luis Segurado IESE Business School, Barcelona, Spain; Kirby Rosplock, Ph.D. GenSpring Family Offices and Dianne H. B. Welsh, Ph.D. University of North Carolina—Greensboro. The information contained within this paper remains the property of copyright holder(s).

The continued success of the family business sector is critical to the UK economy. Yet, surprisingly, little guidance is available on the unique and complex issues that family businesses face. As respected professionals, Steuer Gregsson combines many years of practical experience with a continuing commitment to family businesses. We tailor our approach to the specific needs of the family and the business involved based around our core services of:

managing succession • formalising Family Constitutions • improving communication • business performance improvement

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