

## **Family Office and Financial Management within Family-Owned Businesses**

### **Overview**

Wealth management is the fastest growing segment of the financial services industry. The number of families with intergenerational wealth is growing at a rate of 12 percent annually. Globally, more than 55,000 households have \$30 plus million in liquid assets and more than 10,000 households have \$50 million plus in net worth. This growth has created a need for family office management. There are over 3,500 family offices in the United States and numbers are rapidly increasing in Europe, Asia and Latin America. Traditionally, older intergenerational wealth management was administered by trust departments typically under a financial institution umbrella. In the new economy, individuals have different interests and want to manage their personal net worth through the establishment of a family or multi-family office. Family offices often become an outgrowth of some personal financial management that is occurring at a family-owned business. The following addresses some of the business, family and financial issues challenging family-owned businesses.

### **Business Issues**

Ownership and governance are probably the most critical and overlooked issues of a private family business. Commonly founded by an individual, the family business is typically closely-held, often owned by just the founder and spouse, and decision-making is restricted to the founder. All too often decisions regarding leadership succession have never been addressed and, at the time of incapacitation or death, the company suffers and may even fail. Oftentimes surviving spouses find themselves at the head of a business in which they have had little or no participation for many years and are forced to rely on current management or even outside directors. Existing management may be ineffective and/or the Board has served solely as a “rubber stamp” for the founder’s desires. Besides the obvious dilemma of leadership other issues like shareholder illiquidity and necessary capital for growth become problems at the time of death. It is incumbent upon the family to respond to these and other issues and take appropriate action well in advance if the family business is expected to succeed as the founder envisioned.

### **Family Issues**

Personal identity, definition of family, leadership succession and family stewardship/governance represent some of the more challenging family issues. These may have the greatest impact on the success or failure of a family business—they represent the emotional concerns of family members involving equality and fairness, trust and truthfulness, separation and trauma, or love and fear. Typically in a family business one or more members of the founding family or families are involved in the business, some on merit, and others by the founder’s desire. Participation in the business by family members creates an emotional environment even if things run smoothly. In order to minimize the fallout from family disagreements it is advised that authority and accounting for family members are fixed. Expectations and roles must be clearly defined, employment and involvement of extended family members noticeably spelled out and, most importantly, considerable planning for leadership succession and conflict resolution.

### **Financial Issues**

As the family business grows and matures, financial issues transform from the family business phase at the beginning (financial strategies for capitalization and growth of the business and liquidity) to the serial family business phase (strategies for wealth transfer, philanthropy and funding for entrepreneurial ventures). At first blush financial issues appear more straightforward and less problematic than business or family issues; however, none have greater impact and require great care and diligence in planning. Financial issues involve responsibilities of ownership, investment diversification, downside risk management and family-centered philanthropy. The challenges will be defining the family served, generational time horizon, optimum ownership structures, investment performance and educating family members. A family-owned business may present many challenges as well as rewards; however, under competent management the family office plays an important role. It helps the family focus on the right issues, anticipate the financial challenges ahead, support the development of a family “process,” recognize and address family dynamics and help celebrate the success of the family through the transition.