



THREE FACTORS TO CONSIDER BEFORE CREATING A FAMILY OFFICE

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Our research has identified three main reasons why setting up a family office can help to foster an effective family enterprise system. Understanding how these different factors resonate for your family will help you establish the right family office model.

Over the last decades, the concept of family office has gained momentum around the world. While family offices have been around for more than a century, there is still considerably little understanding of (and even more importantly consent on) what a family office is or isn't.

In the world of family offices, it is often said: *"If you have seen one family office, you have seen one family office."* Of course, what this means is that there are many variations on the structure, objectives, and characteristics of a family office, probably as many as there are family offices.

A family office, if structured well, can be a useful tool for an enterprising family. It stands out from other types of investment or service firms because of its flexibility and capacity for designing holistic, personalized solutions. However, if executed poorly, it can also defeat its objective by resulting in a costly and (somewhat) hollow shell that fails to exploit the variety of options available.

Setting up a family office is oftentimes triggered through liquidity events (e.g., the sale of a business) or when considering the transfer of wealth to the next generation, because the diversified interests of multiple family members evolve over time and may clash. The family office can provide a solution to the challenges of nurturing longevity and unity.

IMD research shows that the forces at play behind the establishment of a family office can be understood more clearly by categorizing them within three core motivations and reflecting on the accompanying questions:

Financial wealth

Preserving and (preferably) growing the family's financial wealth is undeniably the key motivation for most enterprising families for setting up a family office. After all, families need professional services and support to preserve their wealth in both the short and long term.

Key questions to consider: *How important is the preservation of family wealth for you? Are you looking to preserve, grow or spend down your wealth? What are the needs and opinions of other family members? What does your risk profile look like when it comes to investment opportunities?*

Socio-emotional wealth (SEW)

SEW is defined as the pool of non-financial aspects that capture the "affective endowment" of family owners, including the family's desire to exercise family influence to meet its social and personal needs and to perpetuate the family dynasty. In family-controlled firms, family members attach socio-emotional value to firm ownership and make major strategic decisions based on a trade-off between financial wealth and SEW, including their responsibility to local communities.

Key questions to consider: *How important is SEW to your family? What kinds of SEW are you most interested in as a family? What role should it play within a family office setup?*

Family cohesion

Some family office services can be beneficial for more than one motivation. Philanthropy, for example, can build up a family's socio-emotional wealth in the long term as well as strengthening family cohesion by embedding and sharing values, goals and actions.

Some family offices help families with administrative affairs, travel bookings, concierge services, next generation education, family meetings and gatherings, art collections, family archives and so on: services which can also be considered as supporting family cohesion and, ultimately, family happiness.

Decisions by the family office may cause conflicts between family members that require resolution. Consequently, there is a need to define proper governance structures that take into account the requirements of all family members, as well as educating the next generation. It is advisable to think about the institutionalization of family governance prior to working on wealth preservation and its transfer to future generations.

Key questions to consider: *How cohesive is your family enterprise system? How could a family office foster greater cohesion? What types of services and activities would you like a family office to support you with? What areas of possible conflict are there? How can you mitigate these areas of friction through a family office and your family's governance system?*

IMD's Leading the Family Office program helps individuals and families explore, understand and take decisions on how to effectively establish and operate a single family office.

To learn more visit imd.org/lfo. Our next session takes place at IMD from October 28-30, 2020.

Read one of IMD's recent articles on family offices: Kenyon-Rouvinez, D. & Park, J. E. (2020). Family office research review. *The Journal of Wealth Management*, 22(4), 8-20.
<https://jwm.pm-research.com/content/22/4/8>