



THE FAMILY OFFICE: HELPING FAMILIES PRESERVE THEIR WEALTH OVER GENERATIONS

5 QUESTIONS FOR FAMILIES WHO WANT TO MANAGE THEIR WEALTH AND
ENSURE ITS LONGEVITY

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Wealth is volatile; it can be lost as quickly as it is created. It needs to be nurtured with care and strong values.

One of the first decisions families need to make about wealth is whether they will invest together or not. Choosing to invest together offers the advantages of wider investment opportunities, economies of scale in running a family office, a greater opportunity to spread risk, and more.

Once a decision to invest together is made, the family can choose the vehicle that will best help them manage their wealth: an office, a single family office or a multifamily office. The choice is based on the amount of wealth, the cost of running each type, and the level of control the family wishes to maintain.

Here are the 5 questions families must ask when deciding how to manage their wealth.

1] What type of office is right for your family?

The office is a small dedicated desk within the family business, run usually by one person who supervises financial, legal and tax matters related to the private wealth of the family.

The Single Family Office (SFO) is a separate legal entity, often physically distant from the family business that takes care of the management of one family's wealth. It is usually a relatively small structure run by a team of employees with strong expertise who are highly trusted by the family. The office offers services beyond financial, legal and tax management, and may become involved in handling holidays, education programs, or any other family matters. SFOs are expensive but offer a high level of control to the owning family.

The multifamily office (MFO) offers customized financial, tax and legal services to a select number of ultra-high net worth families who decide not to run their own SFO to save on cost or to have access to greater financial expertise. Multifamily offices can take several forms; they can be associations of professionals, run by financial institutions, or even be family owned institutions.

2] How should a family office be structured?

Family members don't need to be involved in the management of the family office, but it is important that they play a role at the governance level. The family must at least set primary strategic objectives, define an investment risk profile, evaluate the performance of the office and make sure it is compliant with rules and regulations.

While they can delegate some of these responsibilities to the family office board and to management, family members need to guide strategic decisions.

The office and single family office are predominately led by families, even if their boards and management are open to outsiders. In these structures families are usually very heavily involved in all decisions, which is far from the case when their financial wealth is invested in a multifamily office.

The family office is usually governed by a board that has the following tasks:

- Establish the financial needs of the family and its expected growth in order to estimate the return needed on investments to cover for those needs and grow the financial capital
- Clarify family values, principles, and desired investment risk profile
- Build a long-term family wealth strategy
- Select key managers
- Ensure that proper controls are in place to meet compliance standards and to prevent fraud
- Monitor investments and benchmark results

3] What is a family office charter and what should it cover?

An additional task of the board is to ensure that the role, attributes, and tasks of the family office are clearly described in the family office charter, a document that describes the governance structure of the family office as well as the family values and guiding principles.

4] How is a family office managed?

The CEO of the family office takes care of wealth management planning, oversees the good functioning of the office, and is responsible for regulatory compliance and compliance with the owners' and clients' guiding principles.

The main tasks of the family office can include investments and portfolio management; private equity, new ventures and acquisitions; tax, legal and estate planning; real estate management and administration.

The form, size, and functions of family offices vary considerably from one country to another and from one family to another. Single family offices often place a stronger emphasis on the financial and other educational needs of family members.

5] How can a family best prepare the next generation?

To make sure that the wealth handed down to the next generation is not squandered, it is important to instill values into inheritors. Each family member may have different perceptions of and reactions to wealth. The generation who created the wealth is generally proud of their accomplishments while the ones who inherit it can take it for granted or may feel unworthy of it.

When inheritors discover that they can do good with their wealth, they often feel more worthy as well as develop a sense of responsibility and stewardship. They can make this transformation by realizing how wealth can help them make their business ventures succeed, create new business opportunities, provide jobs, become philanthropists and support their communities. By being involved in these different activities they often become proud of their wealth and in turn want to share it with their own children. Educational programs can also facilitate the process of helping family members from different generations develop a shared sense of family purpose and common goals.

To give yourself a chance to preserve your family's wealth it is important to provide answers and clarity about these five questions: What type of office is right for your family? How should we structure it? How should we manage it? Do we need a dedicated charter? And, how can we best prepare the next generation for the responsibilities of wealth?

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The next sessions of IMD's [Leading the Family Office program](#) will take place in Lausanne from May 18-20. There will be a [Leading the Family Business stream](#) at IMD's [Orchestrating Winning Performance](#) program in Lausanne from June 21-26.

For further reading on the topic of family offices or on family business governance take a look at the book "[Governance in Family Enterprises – Maximizing Economic and Emotional Success](#)" by Koeberle-Schmid, Kenyon-Rouvinez & Poza - Palgrave Macmillan 2014.

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