THE UNIVERSITY of ADELAIDE

THE ROLE OF FAMILY OFFICES IN ACTIVATING FAMILY WEALTH TO STIMULATE ECONOMIC GROWTH

PHASE 1 REPORT:
Insights From Research and Family Enterprise Advisors

by *Associate Professor Chris Graves*

and Dr. Francesco Barbera

The University of Adelaide Business School

make history.

Just imagine the entrepreneurial, philanthropic, financial and personal energy that can be unlocked if every family enterprise has a clear sense of purpose for its wealth and a strategy to live it.

Jeff Steiner, Mutual Trust's Head of Family Office

With acknowledgement and thanks from The University of Adelaide

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Family Enterprise and Family Office definitions and structures

A **family enterprise** is defined as the collective activities of a family of significant wealth or that of an individual of significant wealth and his or her family members. These collective activities may include the family's operating businesses, philanthropic giving, investment activities, taxation compliance, succession and estate planning, and governance.

The terms **family enterprise** and **family business are not one and the same**. Family business is a term commonly used to refer to a family's operating business (i.e. a family-controlled business).

A **Family Office** is the operating model (people, processes and systems) used by a family enterprise to assist a family in **managing, deploying, growing, renewing and transferring its** (economic and non-economic) **wealth** in an **integrated manner** so as to achieve the **family's current and future needs and goals**.

The Family Office (FO) structures include:

- **Self-Advised Wealth (Self-Advised):** this structure represents the least sophisticated type of FO where the management of a family enterprise's wealth is undertaken exclusively by family members;
- **Family Business Office** (FBO): to manage their wealth in a more coordinated manner, families will often introduce a degree of separation between the family's business operations and the management of their wealth;
- **Virtual FO**: services are generally provided by external providers such as advisors from accounting firms, stockbroking firms and/or banking institutions;
- **Single FO:** As part of professionalising the management of their wealth, families will often set-up a dedicated team and operating framework, separate from their business operations to manage their wealth; and
- **Multi-FO:** they have the scale and expertise to offer a wide range of tailored FO services to family enterprises of different sizes.

1. Executive summary

The purpose of this report is to examine the many lessons that can be gained from the dramatic global growth of the Family Office (FO) service model, to which families of significant wealth are increasingly turning to effectively manage, preserve and grow their long-term wealth. In addition, the report highlights the broader positive economic impacts FOs are delivering.

Insights provided in this report are a combination of information garnered from previous Australian FO surveys, international FO research and insights gained from interviews of expert FO advisors in the field.

As successful family enterprises (FEs) accumulate wealth over time through their entrepreneurial endeavours, almost without exception, there comes a catalytic event when they need to transition to one of several alternative FO models to manage their wealth more effectively.

Consequently, FEs' FO structures often evolve from Self-Advised Wealth or a Family Business FO to a Virtual FO or a Single FO. The costs associated with running a Single FO are extremely high however, and, increasingly, FEs are turning to Virtual FOs or Multi FOs as they present more economical options.

70% of family wealth transfers fail in three generations

Prior research suggests family enterprises struggle to perpetuate their wealth. It is estimated that only 33 percent of family-controlled businesses survive to the second generation and that 70 percent of transfers of family wealth (which includes wealth outside their operating businesses) fail within three generations.

Exponential growth in Family Office numbers

The exponential growth in the number of family enterprises adopting different FO models is due to the growth in the size of wealth and the desire to manage that wealth more effectively. Furthermore, an appropriately configured FO model can assist family enterprises in managing their wealth more effectively for the long-term benefit of the family and the broader economy.

An appropriate FO model can assist families in successfully perpetuating their wealth over the generations so as to meet their current and future needs and goals. Those goals usually include the following:

- Alleviating the family's administrative burden;
- Fostering transgenerational entrepreneurship;
- The preservation and growth of wealth;
- Promoting the development and fulfilment of family members and preparing the next generation, increasingly referred to as the 'rising' generation, for their future wealth responsibilities;
- assisting in family communication and coordination; and
- driving philanthropic and social impact investing strategies.

Family Offices assist family enterprises to boost their economic contribution to society

An appropriate FO model also assists family enterprises in multiplying their contribution to the broader economy through their operating businesses, the deployment of their wealth outside their operating businesses, and through their philanthropic and social impact investing activities.

FOs have a broad and deep impact on society and the economy. For example, in Australia:

- Through their operating businesses, family enterprises provide 55 percent of private-sector employment, 48 percent of total private sector wages paid and 50 percent of Gross Industry Value Added;
- In 2020, it is estimated that Australian FOs manage between AU$515B and AU$695B of wealth (excluding their operating businesses), which contributes towards the creation of 446,000 to 600,000 full-time jobs, AU$38B to AU$51B in wages, AU$73B to AU$98B in Gross Domestic Product and AU$3.6B to AU$5B in taxes in Australia;
- Australian FOs are a major player in the Australian private equity and venture capital market, providing 7 percent of the total sector funding and, through their involvement, family enterprises are supporting the commercialisation of research and development and the growth and restructuring (leveraged buy-outs, management buy-ins and buy-outs) of existing businesses;
- Each year it is estimated that Australian FOs contribute around AU$1B to education, poverty alleviation, science research, arts and health-oriented philanthropic activities. Through their efforts, FOs are not only assisting the disadvantaged segments of society, but they are also reducing the burden on government funding.

Many family enterprises need to ensure they are using the best FO model for their needs

The reality is many family enterprises do not have an appropriate FO model in place to effectively manage their wealth for the future. This is because they may not be aware of alternative FO models and configurations, do not trust advisors, have concerns over the loss of control and sense of identity, avoid confronting issues such as one's own mortality, believe it is too costly and the broader family may not support a change to managing wealth.

Range of important factors should influence FO model choice

Configuring an appropriate FO model is not straight forward and is influenced by a range of factors, including the size of the wealth, resources and expertise within the family enterprise, purpose and preferences of the family and the complexity of their family arrangements and wealth portfolio. Therefore, there is a need for trusted, experienced advisors with the relational skills to work with families when configuring an appropriate FO model.

By adopting an appropriate FO model for managing their wealth, family enterprises can multiply the impact their wealth has on the broader economy. For example, for every one percentage point improvement in annual return on the wealth managed by Australian FOs, it will result in the creation of between:

- 35,700 to 48,000 full-time jobs;

- AU$3.1B to AU$4.1B in wages;
- AU$5.8 to AU$7.8B in Gross Domestic Product; and
- AU$290M to AU$390M in direct taxes (excluding personal income tax).

FOs' ability to manage wealth during COVID-19 pandemic

As this research was conducted during the COVID-19 (C-19) pandemic, it was important to explore the role of and implications for FOs in managing wealth during a crisis.

The impact of C-19 on the wealth of family enterprises in the Pacific region has been greater than the global average. This may be partially due to the combination of the extended lockdown in Victoria, the reduced demand from China and the disruptions caused by the significant bushfires across Australia in January 2020.

Family enterprises with more sophisticated FO structures (e.g. a Single FO or a Multi FO) were better positioned to manage the risks posed by C-19 compared with those who self-managed their wealth or used a Family Business FO.

C-19 has had significant effect on the way in which FOs undertake their activities for family enterprises and has dramatically sped-up the adoption of information technology. Greater adoption and acceptance of information technology may provide enhanced opportunities to Virtual FOs to expand their services to current and future family enterprise clients as barriers to adopting and using information technology diminish.

C-19 has also accelerated the succession planning of family enterprises and assessing whether existing plans are still fit for purpose.

Conclusion: FOs are set to grow in line with Australian family enterprise wealth; education key for family enterprises to achieve most effective wealth transfer outcomes

In conclusion, consistent with global trends, the adoption of a FO model for managing wealth of Australian family enterprises will continue to grow in response to their increasing wealth and the desire to manage it more effectively.

Configuring an appropriate FO model is not straight forward and is influenced by a range of factors. It requires educating family enterprise leaders on alternative FO models and developing an effective FO advisory industry and the collection of reliable Australian FO data, so that the impact of family enterprise wealth managed through an FO can be tracked over time.

2. Background to this report

This report forms part of a larger study the University of Adelaide's Family Business Education and Research Group [FBERG][1] is undertaking into how a "Family Office" (FO) service model can assist family enterprises in managing, deploying, growing, renewing and transferring their wealth more effectively in coming years, and the broader impact on the economy that this can deliver.

Report's purpose

The purpose of this report is to examine the lessons from the dramatic global growth in the use of the FO service model and applying them for assisting Australian families of significant wealth.

A key part of this is to understand the extent to which the FO models can assist family enterprises to more effectively manage, transfer, increase and deploy their wealth in coming years. The report also considers the broader impact on the economy that FOs are helping to deliver.

The methodology used for this report is provided in section 10 of this report.

One of the challenges faced in undertaking this research is the paucity of data available on FOs in Australia.

Consequently, insights provided in this report are a combination of information garnered from previous surveys of the Australian FO sector international research on FOs and insights gained from interviews of expert FO advisors in the field.

This report is organised to answer the following overarching questions in sections 3 to 8. Sub questions are also included in these sections.

A. What FO models exist to help families with managing wealth and how do they benefit family enterprises and the economy?

B. What are the catalysts that create the need for a FO and what are the barriers to implementing one?

C. How does a family enterprise decide on the most appropriate FO model for managing its wealth?

D. What are the most important elements of a successful relationship between family enterprises and their FO advisors?

E. What are the barriers to family enterprises making the most of the benefits from having a FO?

F. In what ways can FO assist families in managing their wealth in times of a crisis such as that brought about by COVID-19?

3. The Family Office model for managing wealth and its benefits for family enterprises and the economy

What is the FO model for managing wealth?

Although the FO model for managing wealth may be new to many, its origins can be traced back to the medieval era where stewards were appointed to manage the wealth of monarchs and houses of nobility[2]. In present times, the common types of FOs emerged from Europe (e.g. Swiss private banks) and the post-industrial era in the USA (e.g. Rockefeller and JP Morgan families)[3].

Currently, there are no definitive Australian or global statistics on the number of FOs because (a) they do not need to be licenced or registered, and (b) there exists a lack of definitional clarity around what constitutes a FO. Nevertheless, recent research indicates that the use of FO models is growing exponentially around the world. For example, in 2019, it was estimated that there were 7,300 FOs globally which represents a 40 percent increase since 2017[4].

The rise in use of FOs may be attributed to the growth in the number of High Net Worth Individuals (HNWIs), Very High Net Worth Individuals (VHNWIs) and Ultra High Net Worth Individuals (UHNWIs) around the world.

In 2020, there were over 25.8 million HNWIs (US$1M-$5M net worth), 2.7 million VHNIs (US$5M-$30M net worth), and 0.3 million UHNWIs (US$30M+ net worth)[5].

Based on available research, below is a snapshot of the Australian FO sector:

- In 2020, there were 3,660 UHNWIs in the Pacific region (Australia, NZ, Indonesia, Philippines & Pacific Islands) with an estimated combined wealth of AU$510B[6].
- Evidence suggests that this wealth is concentrated among a small Number of individuals in Australia. Indeed, the top 200 UHNWIs in Australia have a combined wealth of AU$424B[7]. The number of UHNWIs[8] in Australia is expected to grow by 29 percent over the next five years. This suggests that the need for FOs will continue to grow in Australia in the foreseeable future.
- Based on the most recent 2022 Private Wealth Network (PWN) member survey, around 38 percent of Australian family enterprises have a total capital value of AU$51M-100M while 22 percent have AU$100M-$200M[9] [see Figure 1].

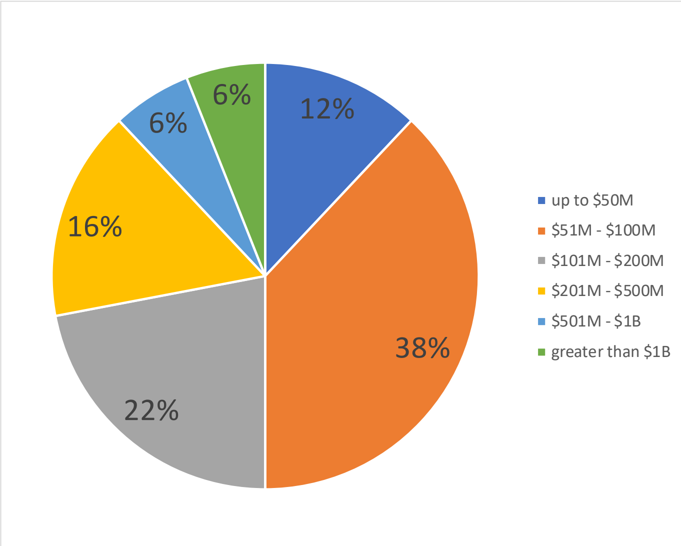


Figure 1: Total Capital Value of Assets Owned by Australian Family Enterprises in Australian dollars [source: PWN[10]]

- Based on a study conducted in 2017[11], the top 200 FOs in Australia accounted for $267B in wealth. Around two-thirds of these FOs are located in NSW and Victoria, while SA only accounted for 1 percent (two FOs in the top 200). Two-thirds of the top 200 FOs are controlled by founders (i.e. the generation that created the wealth), 26 percent are controlled by the second generation while only 6 percent is controlled by third and subsequent generations;

- With regard to the FO industry in Australia, in addition to a number of Single FOs, Australian Family Enterprises are serviced by a number of Multi FOs such as Mutual Trust, wealth management groups, and large professional accounting firms and banking institutions.

So, what exactly is a FO?

It is often said that *"If you have seen one family office, you have seen one family office"* which emphasises the point that all families are unique and that perhaps the concept of a FO is somehow indefinable.

Mutual Trust, Australia's largest multi-family office service provider to family enterprises defines a FO as:

the functional team that supports families with intergenerational wealth. That support can extend to family advisory, family governance and decision-making processes, education of family members, intergenerational wealth transfers, asset protection, philanthropy, financial administration, tax compliance and investment management. A family office is not necessarily a legal entity, physical location or organisational structure, although it will often take on many of these traits as a family's wealth grows.

To further our understanding of the FO model for managing wealth, it is important to differentiate between its purpose and its configuration (i.e. activities and structure). These are elaborated further below.

Purpose of a FO

One of the challenges of defining a FO stems from the fact that family enterprises are not a homogeneous group but vary on many levels including what matters most to them, and consequently, their goals. Despite this, it is important to highlight that the overarching purpose of a FO is to assist the family enterprise in managing its wealth.

Around 70 percent of FOs do not have a mission statement which suggests their purpose is not formally stated[12]. For some, ensuring their financial security and legacy is paramount. As a result, the primary purpose of the FO will be the management of, and planning for, the family's financial wealth.

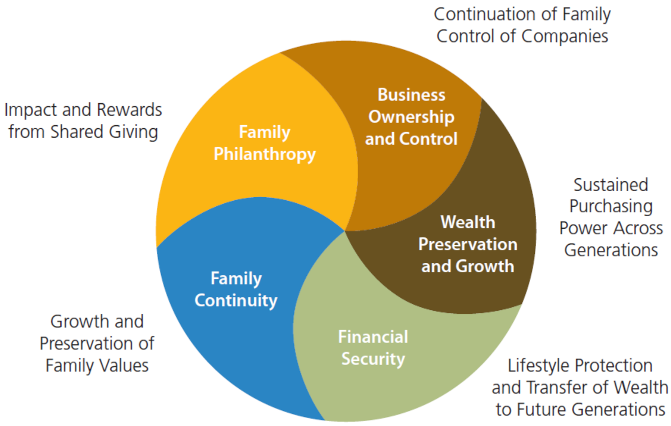


Figure 2: Common goals of families of significant wealth [source: FOX[13]]

Nevertheless, as highlighted in Figure 2, many family enterprises are also driven by socioemotional (non-economic) wealth objectives, such as continuity of control of their operating businesses, preservation of family values and cohesiveness, and contribution to the community and society. In fact, family wellbeing is ranked by family enterprises as the second most important measure of effectiveness in managing wealth[14]. Therefore, the purpose of the FO should also include the management of, and planning for, the family enterprise's non-economic wealth.

Activities that should be undertaken by a FO

As a rule, activities undertaken by a FO should be influenced by a number of factors including (a) the needs and objectives of the family enterprise [i.e., the purpose of the FO], (b) the lifecycle stage of the family enterprise's wealth [discussed below under FO structure] and (c) the extent to which family members are actively involved in the management of their wealth.

The activities undertaken by a FO can be grouped into three broad categories[15]:

(i) **Investment-related activities** (i.e., asset allocation, investment decisions, investment performance monitoring and management, and financial risk management);

(ii) **Family-related activities** (i.e., articulating shared family values, developing unified vision for family wealth, developing the next generation of family leaders, estate planning, philanthropy, risk management and security services, and concierge services);

(iii) **Compliance and administrative activities** (i.e., accounting, banking, insurance, legal, general risk management and taxation services, information technology solutions and client reporting).

Structuring a FO

One factor that contributes to the challenges in defining a FO is the fact that FOs can be structured in different ways. One way of making sense of the different types of FO structures is through a lifecycle perspective of a family enterprise's wealth.

As family enterprises accumulate wealth over time through their entrepreneurial and investment endeavours, there often comes a catalytic event when they need to transition to one of several alternative FO models to manage their wealth more effectively. This is because the complexity of doing so on a self-advised basis has outgrown the available time, knowledge and/or expertise of family leaders. As a consequence, over time, FO structures may evolve from Self-Advised Wealth (Self-Advised) to a Family Business FO to a Virtual FO (Virtual FO) or a Single FO (Single FO) (see below). With the costs associated with running a Single FO, it is more economic for many families to use Virtual FOs or a Multi-Family Office (Multi FO).

…when their wealth grows, when…complexities start to emerge as children get older and…the family expands - they need to start to consider how do they professionalise. [It] will typically start around the kitchen table. But when their wealth grows, then it [the management of wealth] may be part of the [operating] business where some of the employees will help manage elements of the family [wealth]…Then [as wealth and complexity grows] they may morph [wealth management] into more of a single-family office. [Expert FO Advisor 5].

Five FO structures

- ***Self-Advised Wealth (Self-Advised):*** this structure represents the least sophisticated type of FO where the management of a family enterprise's wealth is undertaken exclusively by family members. There is little to no separation between the family and wealth and, subsequently, little consideration of different needs and interests among family members are taken into consideration. As a result, the Self-Advised model is often a fertile environment for family conflict. The Self-Advised approach is common among founders (i.e. the generation that created the wealth), where there is a dominant patriarch or matriarch, or when the family and wealth complexity is limited[16]. However, as family and wealth complexity grow, so does the need for an alternative FO model.
- ***Family Business Office (FBO):*** To manage their wealth in a more coordinated manner, families will often introduce a degree of separation between the family's business operations and the management of their

wealth. In practice, this approach is embedded within the family's primary business where an employee (e.g. their Chief Financial Officer) is entrusted with managing the family's wealth alongside of the business such as their financial and real estate investments[17]. Like the Self-Advised approach, this approach also creates a fertile environment for family conflict because of its limited ability to coordinate the different needs and interests of family members. With the FBO approach, families are highly dependent on the employee who is privy to financial affairs of family members, which can create concerns around privacy and confidentiality. Also, the individual may not have the knowledge and skills required to manage the growing complexities associated with managing a family's wealth. In such circumstances, families may need to progress to a Virtual Family Office (Virtual FO) whereby services are outsourced to external providers or establish their own Single-Family Office (Single FO), where a team of dedicated staff oversee the family's affairs.

- ***Virtual FO*:** services are generally provided by external providers such as advisors from accounting firms, stockbroking firms and/or banking institutions. One of the key advantages of a Virtual FO over an FBO is that families have access to a greater range of expertise and services to meet the growing needs of the family as they seek to manage their wealth more effectively.
- ***Single FO*:** As part of professionalising the management of their wealth, families will often set-up a dedicated team and operating framework, separate from their business operations to manage their wealth. The Single FO is solely devoted to the management of the affairs of a single family or family group. As wealth transitions to successive generations of the family enterprise, branches of the family might become more independent of each other and their needs may diverge. As a consequence, Single FOs may evolve to provide services to different branches of the family (see the diagram in Appendix 1). The key advantages of a Single FO over other models are privacy and control. However, Single FOs can be relatively expensive to operate to achieve economies of scale to be sustainable and not erode wealth.

  ***Multi-FO*:** As the scale of a Single FO expands and its service offering becomes more sophisticated and comprehensive, they may evolve into a Multi FO by making their service offering available to unrelated family enterprises. These types of Multi FOs are often considered closed FOs in that they do not actively seek new clients. Alternatively, there may be Multi FOs owned by third parties (often unrelated families) who have the scale and expertise to offer a wide range of tailored FO services to family enterprises of different sizes (commercial Multi FOs) (see figure in Appendix 1).

  A key advantage of a Multi FO over other FO types is the depth and breadth of services that can be provided to family enterprises. While Multi FOs are a common feature in the USA, they are less common in Australia where Virtual FOs and Single FOs dominate the sector[18]. It's important to highlight that Multi FOs often overlap with other FO models, in that they may provide services to, for example, a Single FO or an FBO to supplement in-house expertise.

Many Australian FOs operate using a hybrid model

In summary, although it may be convenient to place FOs into distinct categories, in reality many FOs operate using a hybrid model. It is important to highlight that family enterprises may not necessarily progress from Self-Advised Wealth to a Single or Multi FO in a linear fashion. For example, some family enterprises may leapfrog an FBO and progress directly from Self-Advised Wealth to a Virtual FO. Conversely, family enterprises may revert from a Single FO to a Virtual FO because of a change in family and wealth circumstances.

A summary of the different FO models, including their strengths and challenges, is provided in Appendix 2.

In what ways do families benefit from adopting a FO model approach to managing their wealth?

In his presentation to a PWN event in Sydney in 2017 entitled "How to Lose a Billion: Lessons from the front lines of lost family fortunes", Michael Southam, Founder and Managing Partner of Rockcliffe Partners, Geneva) identified the top five causes of family wealth destruction. Based on his own family's experience as well as that of 35 other families of wealth, Southam cites the top five causes as:

1. Family conflict (30%)
2. Offspring (23%) – Analogous to the "Malthusian Trap"[19], this problem arises when the growth in family members outpaces the growth in wealth. This results in the gradual division and decline of wealth over succeeding generations;
3. Slow decline (19%) – inability to maintain the entrepreneurial spirit of the wealth creating generation;
4. Luck (17%) – family wealth created on back of luck which couldn't be replicated; and
5. Crooks (11%) - corruption, scams or theft often by those closest to the family.

Based on the above, it is no surprise that a study of 3,250 families that underwent a wealth transfer event[20] found that 70 percent of wealth transfers failed. This is also consistent with the '33:13:3' statistic where only 33 percent of family-controlled businesses survive to the second generation, 13 percent to the third generation and 3 percent to the fourth or later generation[21].

The above suggests that families need help – from outside of their internal ranks – in managing, transitioning and perpetuating their wealth.

Insights gained from the expert FO advisors interviewed as part of this research highlighted many benefits for family enterprises in adopting a FO model for managing their wealth.

These include:

- ***Entrepreneurship*** – the implementation of processes to foster transgenerational entrepreneurship and perpetual growth of their operating businesses;
- ***Wealth preservation and growth*** – investment strategies and management to ensure the preservation and growth of their financial wealth;
- ***Succession and the next generation*** – preparing the next generation for the responsibilities of managing the family's wealth;
- ***Family coordination*** – assisting the family in identifying their shared values, vision and goals, improving communication and family functioning;
- ***Philanthropy*** – aligning philanthropic activities with the shared values, vision and legacy of the family in a professional and rigorous manner;
- ***Administrative burden*** – alleviating family members from the burden associated with the different administrative complexities associated with their wealth in a holistic manner (e.g. tax planning and compliance and estate planning).

In what ways does the rise of the FO model for managing wealth benefit the economy?

Throughout history, family enterprises have been the engine room for entrepreneurial activity and growth of economies around the world. Family enterprises vary according to the impact they have on the economy as they vary according to many factors, including their purpose, the size and complexity of their wealth, and the appropriateness of structures chosen to manage their wealth.

As emphasised earlier, as family enterprises accumulate wealth over time, their approach to managing wealth may need to change. Failure of a family enterprise to transition to a more appropriate FO structure diminishes the impact the family enterprise's wealth has on the broader economy.

Because there are no definitive statistics of the size and composition of family enterprise wealth or the FO structures they use, their economic impact is not easy to quantify. Nevertheless, based on available information of Australian family enterprises, we can estimate the impact of their wealth through statistics regarding their operating businesses, their investment activities and their philanthropic activities.

Contribution through operating businesses

Based on available data in Australia, 69 percent of all Small-to-Medium-Sized businesses (i.e. those that employ < 200 employees) are family controlled[22]. It is estimated that 25 percent of all large Australian businesses (200+ employees) are family-controlled[23]. Based on these statistics and data from the Australian Bureau of Statistics[24], the economic contribution that family enterprises make through their operating businesses is as follows:

- ***Employment*** – family enterprises are the main provider of jobs to the private sector, employing 6.32M Australians (54.9% of private-sector employment); this equates to $294B in wages annually (48.3% of total private sector wages paid);
- ***Economic value added*** – family enterprises contribute $639B in gross Industry Value-Added (IVA) to the economy (49.6% of total gross IVA); and
- ***Taxation revenue*** – wages paid and profits generated by operating businesses all give rise to significant taxation revenue for governments at all levels; such taxes contribute towards the broader economy in terms of funding healthcare, education and infrastructure.

Given that only 33 percent of family-controlled businesses make it to the second generation[25], it is clear that the ongoing economic contribution that family enterprises make through their operating businesses is dependent on their effective management. Put another way, poor management of these operating businesses poses a significant risk to the economy and broader society.

Contribution through deployment of wealth

The contributions made by family enterprises extend beyond that made through their operating businesses. Globally, it is estimated that 59 percent of FO wealth is allocated to traditional asset classes (equities, fixed income, cash), 35 percent to alternative asset classes (private equity, real estate, hedge funds), and 6 percent to other (gold / precious metals, arts and antiques) (see Figure 3).

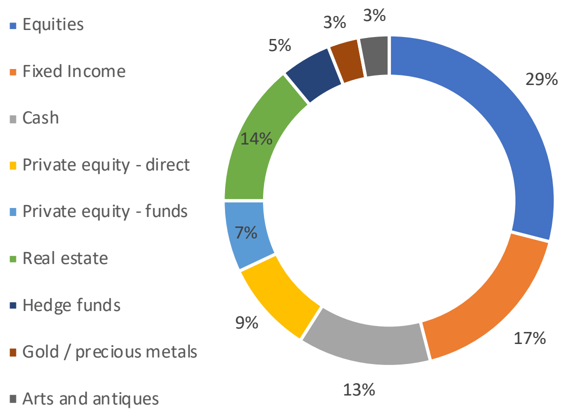


Figure 3: Estimated asset allocation of wealth managed by FOs [source: UBS / Campden[26]]

It is estimated that the combined total wealth of Australian HNWIs, VHNWIs and UHNWIs totals AU$2,000B[27]. However, there is a lack of data on how much of this wealth is managed by FOs. Based on a study conducted in 2017[28], there are 350 single FOs in Australia that account for $305 billion in wealth. Considering the growth in this wealth since 2017, the current wealth of the top 200 Australian UHNWIs alone is estimated to be $424B, and wealth managed by other FO types (e.g. Virtual FOs, and Multi FOs), it is reasonable to assume that between $580B and $780B is managed by FOs in Australia.

Based on prior Australian and international surveys, on average, around 11 percent of FO wealth is tied up in operating businesses. This means between $515B and $695B of wealth managed by FOs is invested in assets outside the operating businesses of family enterprises.

Therefore, assuming a wealth portfolio of Australian FOs ranging from $515B and $695B (excluding operating businesses), in Australia FO investments support between:

- 446,000 to 600,000 full-time jobs;
- $38B to $51B in wages;
- $73B to $98B in Gross Domestic Product; and
- $3.6B to $5B in taxes[29].

It is estimated that every $100M invested through FOs generates[30]:

- 108 full-time jobs;
- $9.2M in wages;
- $17.6M in Gross Domestic Product; and
- $0.9M in direct taxes (exc. personal income tax).

Understandably the above estimates are influenced by the appropriateness of the FO model adopted for managing wealth. As highlighted earlier, by evolving to a more appropriate FO model as the family enterprise's wealth grows, the overall impact on the economy increases. Specifically, for every 1 percentage point improvement in annual return on $515B to $695B of wealth managed by Australian FOs will result in the creation of:

- 35,700 to 48,000 full-time jobs;
- $3.1B to $4.1B in wages;
- $5.8B to $7.8B in Gross Domestic Product; and
- $290M to $390M in direct taxes (excluding personal income tax).

Contribution to new venture creation and innovation

In addition to the direct economic benefits created from wealth managed by FOs, family enterprises are significant investors in the private equity sector. As highlighted in Figure 4, Australian FOs contributed 7 percent of all private equity funds raised from Australian-based investors.

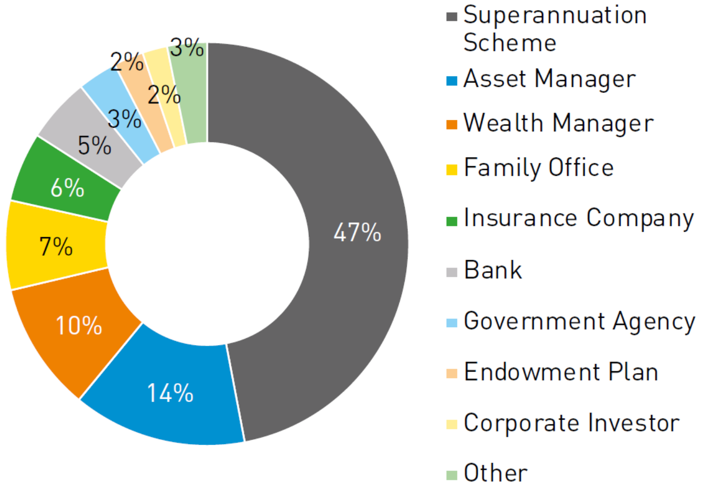


Figure 4: Sources of Australian Private Equity Fund Providers [source: [31]]

Although the Australian private equity sector remains small compared with Asia, Europe and the USA, it is increasingly playing an important role in earl- stage investments (new innovations and ventures), late expansion investments (growth capital) and buy-outs (leveraged buy-outs, management buy-ins and buy-outs).

Contribution to society through philanthropy and social impact investing

In addition to wealth invested in and outside their business enterprises, family enterprises are also significant contributors to philanthropy. Currently there is no publicly-available data on the amount of philanthropic giving by Australian FOs. However, based on data available from the Australian Charities and not-for-profits Commission (ACNC), it is estimated that grant-making entities (e.g. foundations) granted and donated $1B in 2018. Philanthropy in the Asia-Pacific region tends to be directed to education (47%), poverty alleviation (18%), health (18%) and the arts (10%)[32]. Philanthropic giving directly benefits the disadvantaged segments of society as well as reduces the burden on government funding.

In addition to philanthropy, family enterprises are increasingly investing for social impact. Unlike philanthropy where the focus is solely on societal return, social impact investing is concerned with the creation of social enterprises that are able to generate both societal and financial returns in a sustainable manner.

… there are more and more families who are looking for impact investments…there's a pool of [family office] capital that's becoming available there to benefit people who need it – organisations who are doing good work for the environment, for disadvantaged communities…So, I think [the] family office is playing a really important part of seeding the investment that is needed for social change.

[Expert FO Advisor 10].

In summary, families make significant contributions to the economy through both their operating businesses and the deployment of their wealth outside these businesses. The contribution family enterprises make to the economy and society is influenced by the appropriateness of the FO model adopted.

4. Catalysts creating the need for a FO and the barriers in implementing one

What catalysts create the need for a family to adopt a FO model for managing their wealth?

As highlighted earlier, as family enterprises accumulate wealth over time, there often comes a catalytic event which creates the need to transition from Self-Advised or FBO approach to an alternative FO model to manage their wealth more effectively. This is often because the complexity of the family's wealth, or the family itself, has outgrown the available time, knowledge and/or expertise of family leaders or their employees entrusted with the responsibility.

As stated by one of the study's respondents, indicators of the need for a FO include:

[An FO is needed]…when you start to get multiple generations, when your time management is split between all the business and family life …if you are a family owner running a business but you don't have time to manage your own family affairs and other things outside of that business. [Expert FO Advisor 3]

There are common catalytic events which often bring about the need to adopt a more coordinated approach to managing wealth of the family enterprise. Based on insights gained from the expert FO advisors interviewed, these include:

1. A liquidity event such as the partial or total sale of one of the family enterprise's operating businesses or assets;
2. A life event – this may include
    a. Incapacity / death - of the patriarch or matriarch of the family enterprise;
    b. Inheriting significant wealth because of the passing of a relative;
    c. A birth, marriage or divorce and the implications for family wealth;
3. A sudden increase in wealth as a result of business and/or investment performance;
4. A sudden increase in the complexity in coordinating the activities of the family enterprise.
5. A change or retirement of a key executive or trusted advisor of the family enterprise.

Although a family enterprise may experience a catalytic event like one of those outlined above, this doesn't necessarily mean that establishing a FO is the right model for that family at that particular point in time. As stated by one of the expert FO advisors interviewed:

FO advisors do their due diligence up front before suggesting [to the family enterprise client] whether or not a particular family office structure is warranted. [Expert FO Advisor 3]

What are the common barriers in adopting a FO model for managing wealth?

Given the potential benefits to family enterprises and the economy, adopting an appropriate FO model for managing wealth would seem a logical step. However, the fact 70 percent of wealth transfers fail within three generations[33] suggests family enterprises struggle to implement an effective FO model for managing their wealth. This raises the question - what are the common barriers to adopting an effective FO model?

It's important to distinguish between two issues, namely:

1. Barriers to moving from Self-Advised or an FBO to a more coordinated approach to

managing wealth such as a Virtual FO or Single FO; and

2. Barriers to adapting the current FO model used to one more suited to the needs and objectives of the FO (e.g. from a Single FO to a Virtual FO or Multi FO).

The second issue is addressed later in this report in terms of adapting the FO to the changing needs of the family and barriers to making the most of having a FO.

Regarding the first issue, expert FO advisors interviewed for this study indicated that the most common barrier to adopting a more coordinated approach to managing the wealth of the family enterprise is *educational* and *psychological*. Specifically;

- ***Awareness:*** a lack of awareness of the FO office model, the benefits it can bring, and when to use one; family enterprises may well be profitable but unaware of how their wealth could be managed more effectively by transitioning to an appropriate FO model;

  Sometimes it's because they don't realise what they don't know. [Expert FO advisor 11]

- ***Trust:*** concerns regarding trusting outsiders will do the right thing by the family;

  …I don't know if it's a little bit of fear, a little bit of people thinking they can do it better themselves – a lack of trust and also a real lack of education and understanding between what a Family Office – well, not even what a family office – but what proper Management can do for you. [Expert FO Advisor 7]

- ***Identity:*** pride (identity) in coordinating the family's wealth and the belief he/she can do it on his/her own;

- ***Losing control and purpose:*** perceived loss of control by involving outsiders, concerns regarding greater transparency and loss of purpose if this responsibility is reassigned; and

- *Avoidance:* steering clear of challenging topics such as one's own mortality or challenging family dynamics;

  I'm scared to face my own mortality. If I relinquish control, I might lose purpose and my importance within the family. If I do this, I'm recognizing that…I'm towards the end of my life...[For] others [it] might be ego…I don't need [outside help], I can manage this myself. [Expert FO Advisor 2]

The psychological barrier is particularly an issue for the generation that created the wealth.

Founders have built their very identity around the business…an extension of themselves, their chosen "child". For all practical purposes, it is his[her] business, not his[her] family's business. He [she] owns the business but, very importantly, the business owns him [her]...Therefore, whenever the choice has to be made between sacrificing the business and sacrificing the family, the vast majority of founders will choose to sacrifice the family, as sacrificing the business would be akin to committing some sort of psychological suicide[34].

Other barriers highlighted by the expert FO advisors interviewed include:

- Perceived cost in moving to a more coordinated approach to managing wealth and questions regarding the benefits of doing so; and
- Lack of support from family members or challenges in doing so because of family conflict.

5. Choosing the most appropriate FO model

How do you go about determining the most appropriate FO model for a family enterprise?

As previously stated, each FO is unique and each FO advisor must carefully consider the specific circumstances of the family enterprise to configure the most suitable model based on current circumstances and future combined aspirations and requirements of family members.

Based on insights gained from expert FO advisors interviewed, the following factors are commonly taken into consideration when configuring a suitable FO model for a family enterprise:

1. ***Size of wealth* – si**ngle FOs can be relatively expensive to operate, such that they require a minimum level of assets (arguably at least AU$500M[35]) to achieve economies of scale in order to be sustainable;
2. ***Sophistication of the family enterprise* –** some family enterprises have the resources and capabilities in place to set-up and operate a Single FO in their own right or with the assistance from outside providers such as that provided by a Virtual FO or an Multi FO;
3. ***Family preferences*** – regardless of the case for a particular FO configuration, ultimately, it's the family enterprise leaders who decide what they're comfortable with; for example, because of their preference for control and privacy, some family enterprises will undertake some FO-related activities in-house and outsource other activities to FO service providers (Virtual FOs, Multi FOs);
4. ***Complexity*** – complexity of the family enterprise's business, investments, and family circumstances will influence the services required and, therefore, the type of FO model. However, complexity alone will not determine the FO model that is suitable. Rather, it is the size of wealth, sophistication of the family enterprise and family preferences that will ultimately determine the model that can be adopted to cater for the complexity of the family enterprise.

So, how does an FO advisor configure the most suitable FO model for a family enterprise?

1. Firstly, they need to have a type of trusted relationship that puts them in a position to do so. This requires the FO advisor to have a deep understanding of the family members and make up, the family's style, circumstances, preferences and nuances, have the trust of the family, and have the skills to work alongside them as a coach or guide. These issues are discussed in more detail in the next section.
2. They need to have a process that they can get buy-in from the family to identify critical issues such as the family's core values and vision, goals, strategies for the family as a collective vs. individually, appropriate governance and decision-making structures and commitment to develop the next generation.

   Once you've got [an agreed] vision, set of values that we are signing up to, a good sense of purpose and that could be this is what we're going to do together as a collective and… what we're going to do as individuals because individual differences such as different risk profiles." [Expert FO Advisor 5].

Different FO advisors will have different approaches to identify these core issues. For example, Mutual Trust uses a process called 'The Family Roadmap' as a tool to begin tailoring solutions for their clients as part of configuring or adjusting an appropriate FO model.

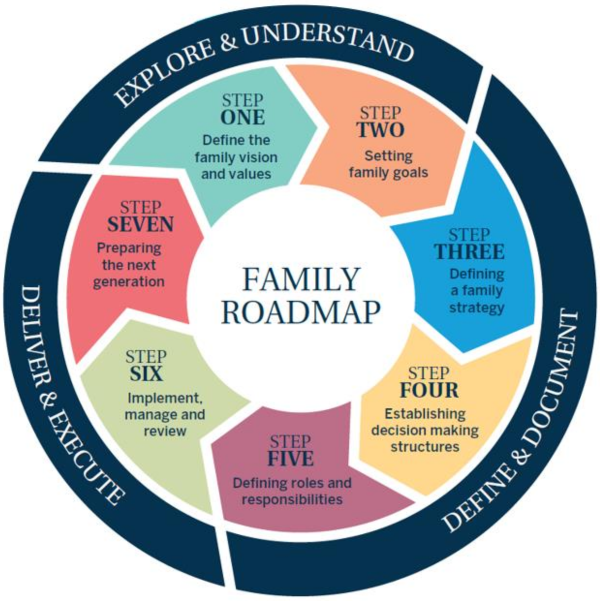


Figure 5: The Family Roadmap [source: Mutual Trust]

Yet, FOs are a bit like people – they all start young, mature over time and respond to ever-changing conditions around and within them.

6. FOs and their advisors

What are the most important elements of a successful relationship between family enterprises and their FO advisors?

As part of this study, we asked expert FO advisors what they believe to be the most important elements of a successful engagement with their family enterprise clients.

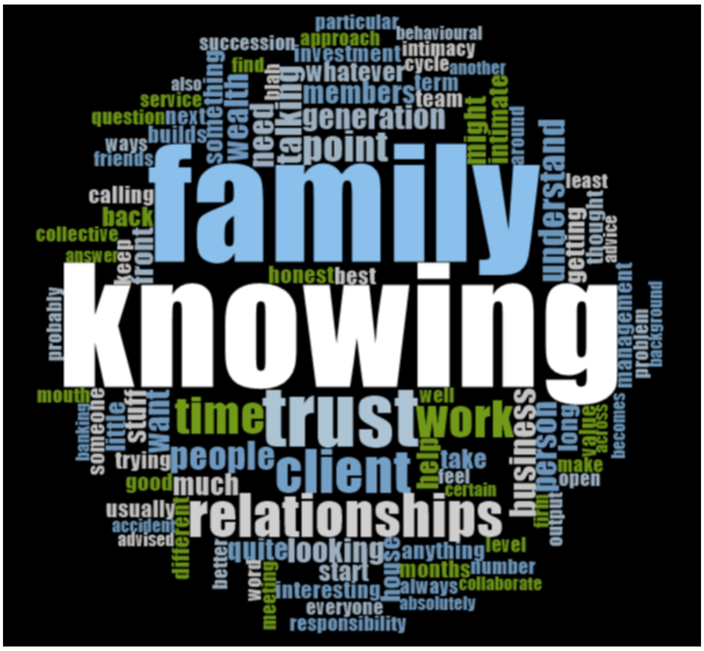


Figure 6: Word Cloud of What Makes a Successful FO Advisor – Family Enterprise Relationship

As Figure 6 below highlights, the most referenced elements of a successful FO advisor – family enterprise engagements are:

- ***Knowing the family*** – the passion and commitment to develop a comprehensive understanding of the family enterprise client;
- ***Trust*** – wholeheartedly trusted by the family enterprise client. *When you've worked with families for a long time, most of the family members absolutely trust me and I'm almost a family member…*[Expert FO Advisor 2]
- ***Relational*** – it's not transactional, but relational. It's long-term in nature, with a sincere concern for the family enterprise members. It's as much about the journey with the family enterprise members (highs and lows) as it is in the destination (realising their vision).

To quote the well-known phrase of Abraham Maslow, *"it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail."*[36]

Although important, one's technical expertise alone is not sufficient to be an effective FO advisor. For example, although many family enterprises may require investment advice, they also require advice on a range of other, often interrelated and complex, issues.

It's not necessarily having the financial know-how or expertise because we can find that. It's forming relationships where a new family can really trust that we're going to help them and be able to help them and have the wherewithal to do that. [Expert FO Advisor 2]

Above all, FO advisors require soft skills that enable them to work alongside their clients using more of a 'process' consulting as opposed to a 'expert' approach.

I just think to work with families and to be really good at it you have to have a very high level of EQ and I think that's what's missing from a lot of advisors. They just don't have it…the key is to know what you're good at and, obviously then, call in the experts in different areas to assist you with a client to make sure that the client is getting the best experience and the best value. [Expert FO Advisor 14]

[Effective FO advisors] are building strong relationships, have great interpersonal skills, have empathy, are great at listening, good communicators, good facilitators, can be objective, independent, can tell people your honest views respectfully…They're the type of skills you need. And that takes a certain type of professional…strategy and execution ability,

capability, as well, because you need to be able to come up with a plan with them, uncover it and then get a whole group of people together of different shapes, sizes and skills to help you deliver. [Expert FO Advisor 5]

In what ways is this influenced by the type of FO adopted?

The type of FO model adopted will influence the nature of the relationship with the family enterprise.

As a family enterprise progresses from Self-Advised or an FBO to Virtual FOs, Single FOs and Multi FOs, it will become more critical for FO advisors to possess softer skills in order advise in a more holistic manner and bring in and coordinate the different experts where required.

The challenge for those who work with Self-Advised and FBOs is to broaden the relationship so that they can assist with the wider family system than relying on a particular family member.

In order for that to be truly successful, you have to be able to ensure that the firm is recognised as being the family's firm and not the relationship of the advisor to that patriarch or the advisor to the next generation. [Expert FO Advisor 14]

Some suggest that the key advantages of a Single FO and Multi FO is that FO advisors can be dedicated to proactively meeting the needs of their family enterprise clients compared with Virtual FO advisors who may not have the capacity to do so because of the many clients they service.

That's a difference between your Virtual FOs where you…get consulting, which is a one-person advice or ongoing advice versus the real execution model with the Single FO and Multi FO models where they've got the blueprint and they are there. That's their job every day to think about how they are going to execute and deliver outcomes. [Expert FO Advisor 5]

The above issue may also be experienced by Single FOs on certain issues because of their focus on particular activities for the family enterprises, while overlooking important but longer-term issues that will become urgent with the passing of time.

If we're talking about family and advice, strategy, execution you'll probably find the Multi FO will have high expertise in those areas versus say a Single FO where if you've only got less than five to ten people, they do get bogged down day to day with everything…they don't get the time to focus on the big picture things like ownership, succession, education because all the other demands of the day get in the way. [Expert FO Advisor 5]

7. Barriers to making the most of having a FO

Although a family enterprise may have a FO, it does not always mean they will realise the full benefits. Based on insights gained from the expert FO advisors interviewed for this study, the following factors were identified as key inhibitors to family enterprises in making the most of having a FO. These are (in order of biggest inhibitors):

Lack of awareness

Family enterprises face the risks stemming from FO 'unknown unknowns'. To some family enterprise leaders, they simply may not know how best to make use of the FO they have.

To others, it may be that they have outgrown their current FO model and do not know of alternative models and the advantages they can bring. This is particularly an issue for family enterprises that utilise an FBO or a Virtual FO where there may be a lack of coordination of expert advisors resulting in poor communication, diminishing or non-existent family commitment, and a lack of coordination in preparing for the future.

There is…the propensity to say, "I need a family office, therefore I'm going to go and hire a team of incredibly sophisticated and expensive investment professionals" without seeing how that all fits together.[37]

In some instances, advisors may exacerbate the lack of awareness among family leaders. For example, an employee entrusted with managing the family's wealth in an FBO may have limited knowledge of the family's broader needs, and the assistance available from outside FO providers.

As highlighted earlier in this report, it is critical that family enterprises select advisors who have the required soft skills to work with families of wealth holistically but also free from conflicts of interest.

Poor family communication

Having a FO in place doesn't necessarily mean that communication among family members will be improved. In fact, certain FO models (as outlined in Appendix 2) are more difficult in encouraging family communication (e.g. FBO).

A lack of communication can be due to fractures in family relationships, distrust in the next generation, and avoiding confronting topics such as foregoing control or leadership succession.

[In] a lot of cases, the first generation may not want to talk about the issues because it forces them to confront…their own mortality or loss of control... Maybe they don't want to talk to the second generation because they don't trust the kids…we worked hard for it. "I don't trust the second generation is going to do the right things." They might marry the wrong person and things like that. [Expert FO Advisor 4].

Preparing the next generation

The number one issue that the next generation in Australia and NZ[38] desires from the generation in control of the family's wealth is a greater focus on governance and succession within the family enterprise. A lack of awareness and poor family communication create the environment when the next generation feel excluded from important discussions about the family enterprise's future.

I think what's so hard for families, and for family offices, is to think beyond the current generation. They're just not wired to do that automatically… the family office primarily serves the needs of one generation. And I think that's something to get clear on strategically...“Do we want to support that next *generation?" If the answer is yes, families need to think about when they are going to start bringing the next generation into the decision making and figure out how they are going to do that[39].*

The need for governance

As highlighted earlier in this report, the Williams Group study of 3,250 families that underwent a wealth transfer event[40], found that 70 percent of wealth transfers failed within three generations. This study identified three key reasons for this failure (in order of effect): (1) a lack of communication and trust among family heirs (2) a lack of preparation of the next generation for the responsibilities of wealth and (3) a lack of a shared vision as to how the wealth could be used.

The fact that two of these issues were identified in this report as being key barriers to making the most of having a FO suggests the need to have some overarching governance mechanism. This is to ensure families have a clear sense of purpose for their wealth, that they communicate effectively on issues pertaining to the family enterprise and actively work on strategies to develop the next generation before it's too late.

I think that there is fundamentally a question of governance and the nature of how families can create the over-arching structure that enables the sense of fairness and judicial process to be appreciated and understood. [Expert FO Advisor 14]

Many family enterprises will be familiar with 'corporate' governance through their operating businesses. However, few will be familiar with the concepts of governance of the family enterprise and how this is different to that of corporate governance. To date, because of the preoccupation with corporate governance of family-controlled businesses, academic research on governance of family enterprises is in its infancy.

Based on the overview of the different FO models in this report, family enterprises that utilise a Single FO or an Multi FO are more likely to have governance mechanisms in place to ensure the successful transfer of wealth to the next generation. The concern is more so with those family enterprises that are Self-Advised or an FBO, and to some extent those that use a Virtual FO.

However, as one of the FO experts highlighted, the implementation of governance structures needs to be considered carefully because it can result in families losing that sense of purpose that brings them together:

…the more detached you become between what you own and who you are as a family [because of formal governance] the more there is potential for things falling through the cracks and things becoming more negative for the impact of wealth on families. [Expert FO Advisor 16]

8. In what ways do FOs assist family enterprises during a crisis?

Given events unfolding while this research was been undertaken, it is appropriate to reflect on the ways in which FOs assisted family enterprises in successfully responding to the challenges brought about by COVID-19.

Although there is no data on the effect of COVID-19 on wealth managed by Australian FOs, the impact on the wealth of UHNWIs gives us some indication.

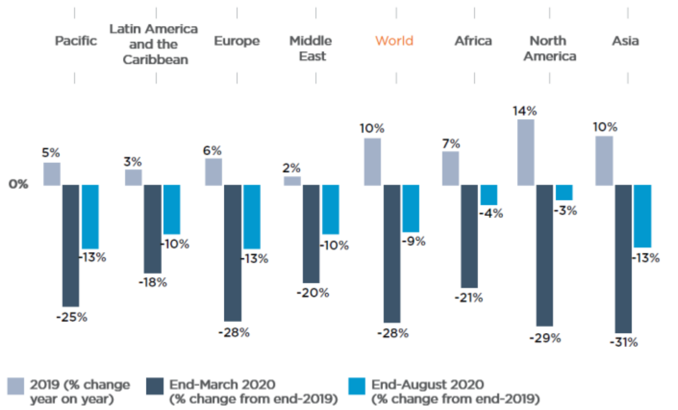


Figure 7: Impact of COVID-19 on wealth of UHNWIs [source: Wealth-X[41]]

As highlighted in Figure 7, from the end of 2019 to August 2020, UHNWIs located in the Pacific region experienced a 13 percent reduction in the size of their wealth. While this is significantly better than that reported earlier this year (end of 2019 to March 2020 = 25% reduction), overall UHNWIs in the pacific region have experienced greater reductions in wealth compared to the world average (9%). This is possibly in part due to the combination of (1) the extended lockdown in Victoria, (2) reduced demand from China and the (3) disruptions caused by the significant bushfires across Australia in January 2020.

Effect of COVID-19 on family enterprises and implications for FOs

Insights gained from expert FO advisors suggests the impact of C-19 on the wealth of family enterprises has not been uniform but dependent on the characteristics of family enterprises. These include whether they are passive or active investors, whether they own operating businesses and what industries they operate in and what liquidity they have on hand to take advantage of investment opportunities that have arisen from the crisis.

For clients who are passive investors, income has and will decline. [Expert FO Advisor 2]

Nevertheless, many family enterprises are well positioned to pivot in response to the crisis because of their strong financial position and lifestyle assets.

[They are] are endowed with significant balance sheets which can weather the storm. They are…more concerned about positioning themselves for the crisis – whether that means right sizing their business or repositioning their portfolio. [Expert FO Advisor 12]

Like most organisations, physical distancing policies because of C-19 has affected the ways in which FOs undertake and coordinate their activities. Specifically, there has been a greater reliance on information technology to continue to operate the FOs. Some family enterprises have been better placed to cater to these restrictions because of the sophistication of their FOs and the resources and expertise they have.

I don't think COVID is going to change the nature of what a family office is designed to achieve. All it's done is actually accelerated the basis upon which that change has occurred. We're seeing clearly an increase in the use of technology… able to be more savvy [in] the delivery of information via smart devices, the increase in the immediacy of information provided and the range of tools that are now available to enable a family member to be informed as to what the family *is doing…It makes it far more easier to have a family meeting rather than everybody flying in…I think you'll see more family offices… having more meetings rather than less because you'll take away that barrier of travel and scheduling, to a certain extent…it could result in better communication if we can figure all that out.* [Expert FO Advisor 14]

The move towards greater use of information technology to offer FO services has raised some additional challenges for family enterprises such as embracing suitable technology and educating family members on its use, cyber security (one of the primary concerns for FO security), and the effect of regulation on the legality of decision-making in a virtual context.

In summary, C-19 has had significant effect on the way in which FOs undertake their activities for family enterprises and has dramatically sped-up the adoption of information technology. Greater adoption and acceptance of information technology may provide greater opportunities to Virtual FOs to expand their services to current and future family enterprise clients as barriers to adopting and using information technology diminish.

Role of FOs in protecting wealth during the COVID-19 crisis

Based on insights gained from expert FO advisors interviewed, family enterprises with more sophisticated structures (such as a Single FO or an Multi FO compared to an FBO) were generally in a better positioned to manage the risks posed by C-19.

I think that if they have a good structure they're in a lot of ways in a better position and more able to land and make choices. [Expert FO Advisor 13]

Having a FO has been an invaluable resource for family enterprises during these times:

When markets are strong, everyone thinks they're an expert...However, during times of volatility, we find that families turn to their family office for not only advice, but also reassurance that everything is going to be ok. We find that the level of client engagement spikes during periods of volatility. [Expert FO Advisor 12]

Some family enterprises chose to outsource particular FO activities rather than undertaking them in-house as part of managing their risk exposure:

Clients who manage their own portfolios have reconsidered having external advisors provide assistance with managing their wealth. [Expert FO Advisor 11]

Given the well-recognised effect of C-19 on the psychological wellbeing of business owners, it's also important to consider how a FO assists the wellbeing of members of the family enterprise.

If anything for my clients it has made them realise how much close family means to most of them. I think it also has made a lot of families appreciate life and comfort in that they have a safe set of trusted support around them that they can rely on to guide them through these times, financially and non-financially. [Expert FO Advisor 3]

The effect of COVID-19 on succession planning

Some argue that C-19 has created an imperative for family enterprises to "accelerate their succession planning and check if existing plans are still fit for purpose."[42] As highlighted earlier in this report, the number one issue that the next generation in Australia and NZ needs from the generation in control of the family's wealth is a greater focus on governance and succession within the family enterprise. Insights gained from the expert FO advisors interviewed for this study suggests family enterprise leaders' discussions about succession and governance are on the increase.

We have noticed that this environment has caused families to bring forward conversations about their family succession and governance. [Expert FO Advisor 1]

FOs play an important role in ensuring issues surrounding wealth transfer and the development of the next generation are proactively addressed:

COVID-19 has created a focus on estate planning and this extends to preparing the next generation to take over the reins in some instances and focus on issues such as the health of older family members. Where there are obvious signs of the deterioration of the cognitive abilities of older family members, I have seen the Family Office step in to warn and prepare the next generation regarding issues of which they may not be aware . [Expert FO Advisor 2]

As highlighted earlier in this report, a key component of succession planning is developing the next generation. The next generation is keen to have greater involvement in the decision making of the family enterprise.

Most have reviewed their succession plans, ensuring they are current. I think this has also encouraged current decision makers to actively think about how they move to collective decision making and allow the rising generation to step up, to start to take ownership. [Expert FO Advisor 12]

9. Conclusion

Consistent with global trends, the adoption of a FO model for managing wealth of Australian family enterprises will continue to grow in response to their increasing wealth and the desire to more effectively manage it.

An appropriate FO model can assist families in successfully perpetuating their wealth over the generations so as to meet their current and future needs and goals. Importantly, by adopting an appropriate FO model, family enterprises can also significantly multiply the impact their wealth has on the broader economy and society.

"When you have seen one family office, you have seen one family office" is a common phrase for one key reason – an experienced FO advisor must consider the specific circumstances of the family enterprise to configure the most appropriate FO model.

Configuring an appropriate FO model is not straight forward and is influenced by a range of factors. It requires educating family enterprise leaders on alternative FO models, developing an effective FO advisory industry and the collection of reliable Australian FO data so that the impact of family enterprise wealth managed through a FO can be tracked over time.

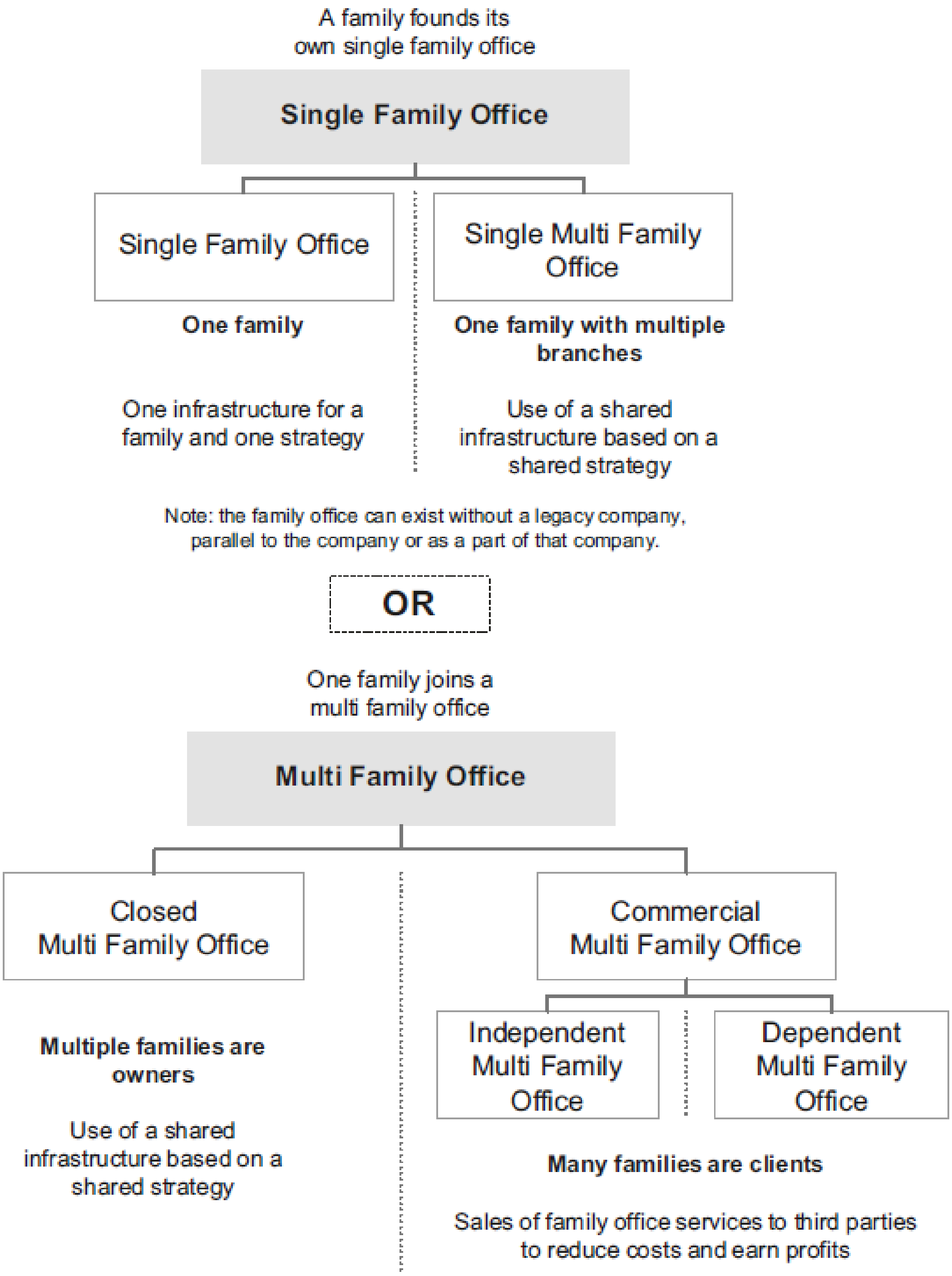
10. Methodology

This report was researched and written by Associate Professor Chris Graves with the support of Dr. Francesco Barbera from the University of Adelaide Business School's FBERG, with the financial and in-kind support and feedback provided by Mutual Trust.

One of the challenges faced in undertaking this research is the paucity of data available on Australian FOs. As a consequence, information provided in this research report was derived from three sources:

- Insights gained from previous survey reports of the Australian FO sector;
- Insights gained from a review of the latest literature of family enterprises and FOs from around the world, and a literature review was also undertaken of the relevant academic and industry research. Key themes from the literature were identified and grouped according to the broad research questions that were the focus of this study; and
- Insights gained from interviews of FO experts in the field. Specifically, a qualitative analysis of the semi-structured interviews of 16 FO experts from Australia and overseas was conducted. Interviews were transcribed and analysed using NVivo, a qualitive data analysis software. This process identified a number of themes which were grouped according to the broad research questions that were the focus of this study.

Appendix 1: Structural difference between Single FOs and Multi FOs



[**source:** Weber, Canessa & Koeberle-Schmid, 2018, p. 15][43]

Appendix 2 - Strengths and Challenges of Different FO Models

FO Model	Description	Strengths	Challenges
SELF-ADVISED	This structure represents the least sophisticated type of FO where the management of a family enterprise's wealth is undertaken exclusively by family members. There is little to no separation between the family and wealth, and consequently, little consideration of different needs and interests among family members.	• Total control by an individual family member • Total privacy	• Many! • High risk of family agency-related costs where dominant family members utilise wealth for personal gain • Wealth subject to significant risk exposure • Vulnerable to family conflict and unsuccessful wealth transfer
FAMILY BUSINESS OFFICE	Families introduce a degree of separation between the family's business entity and the management of their wealth. In practice, this approach is embedded within the family's primary business where an employee (e.g. their Chief Financial Officer) is entrusted with managing the family's wealth outside the business.	• Total control by an individual family member • Inexpensive through use of existing resources available to the family	• High dependency on employee(s) entrusted with responsibility for assisting in the management of their wealth • Limited scope of services and expertise as dependent on employee(s) • Not suitable for when complexity increases • Risk exposure • Vulnerable to family conflict, dominant family member, lack of family commitment.
Virtual FO	FO services provided to the family enterprise by external providers such as advisors from large accounting firms or banking institutions. Difference between VFOs and commercial MFOs (below) is that the latter are solely focussed on providing FO solutions to family enterprises while the former provide a suite of business advisory services to a range of clients including family enterprises.	• Access to comprehensive suite of services • Particularly suitable for family enterprises that no longer have operating businesses	• Coordination of different advisors to ensure holistic solutions to managing wealth • Vulnerable to being more transactional rather than relational • Vulnerable to family conflict, dominant family member, lack of family commitment.
Single FO	A legal entity owned by a family but operated separately from its operating businesses. The Single FO may have a family or non-family CEO and employ staff and utilise outside expertise. The Single FO is solely devoted to providing FO services to a single family and over generations, different branches of the family.	• Total control by the family • Privacy and anonymity • Dedicated to the family's needs and objectives • Able to be customised to meet family's needs • Services available on demand	• Cost (expensive, requiring min. investible assets of AU$500M to be sustainable; below this some services will need to be outsourced) • Limited operational efficiencies as only serving one family • Difficulties in attracting and retaining required talent • Limited scope of services • Vulnerable to family conflict, dominant family member, lack of family commitment.
Multi FO	Similar to a Single FO except that offers a broader range of FO services to several unrelated family enterprises (a closed Multi FO). Some MFOs are owned by third parties and/or families who offer a wide range of tailored FO services to family enterprises of different sizes (a commercial Multi FO)	• Depth and breadth of services • Scalability • Cost effectiveness compared to a Single FO • Ability to integrate services to provide holistic solutions • Ability to attract and retain required talent • Lower block holder agency issues (conflicts within a group of family owners). • Low dependency on any individual • Network & co-share opportunities with other family enterprises • Provision of data management and IT solutions	• Being able to satisfy the needs and objectives of the diverse group of family enterprises • Vulnerable to greater bureaucracy and less flexibility / nimbleness, and being more transactional rather than relational • Potential agency issues – doing what's best for the family enterprise vs. what best for the Commercial Multi FO • Potential for group think

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