THE UNIVERSITY *of* ADELAIDE

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

PHASE 2 REPORT:
Insights From Family Enterprise Leaders

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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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Table of contents

1. Background to this report

This "Insights from Family Enterprise Leaders" report is the second and final report produced as part of a larger study undertaken by the University of Adelaide's Family Business Education and Research Group [FBERG][1] 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 have.

The methodology used for this report is provided in section nine.

For the purpose of this report:

- A **family enterprise** is defined as *the collective activities of a family of significant wealth or an individual of significant wealth and their family members.*
- The **collective activities** of a family enterprise encompass the family's *entrepreneurial, philanthropic and investment endeavours, governance, taxation compliance, development of the rising generation and succession and estate planning, and family engagement pursuits*[2].
- The terms **family enterprise** and **family business** are not one and the same. Family business is commonly used to refer to a *family's operating business* (i.e. a family-controlled business). However, the term 'Family Enterprise' is a broader concept as it encompasses the family's operating business(es) and the broader collective activities outlined earlier.
- A **Family Office (FO)** is defined as *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 to achieve the family's current and future needs and goals*. Based on the types of FOs used by the FEs represented in this phase of the study, this report focuses on three types of FOs defined below:

  Business Family Office (BFO) is where a *family introduces a degree of separation between the family's business entity and their wealth management*. In practice, this approach is embedded within the family's primary business, where an employee (e.g. their CFO) is entrusted with managing the family's wealth outside the business.

  Single Family Office (SFO) is where the *family establishes and operates a legal entity separately from its operating businesses. The SFO may have a family or non-family CEO and employ staff and utilise outside expertise*. The SFO is solely devoted to providing Family Office services to a single-family.

  Multi-Family Office (MFO) is similar to an SFO except that it *offers a broader range of Family Office services to several unrelated family enterprises*. In this second phase of the study, FE leaders that used MFOs were commercial MFOs. Commercial MFOs are owned by third parties and families who offer a wide range of tailored Family Office services to family enterprises of different sizes.

A critical determinant of whether a family enterprise can successfully transfer its wealth and continue to impact the economy is whether future generations are prepared for the responsibilities of managing wealth. For the purpose of this report:

[1] https://business.adelaide.edu.au/research/fberg

[2] Mutual Trust (2016), *A roadmap for managing family wealth across generations*, Mutual Trust, p. 3.

The **rising generation** *refers to family members who are yet to reach adulthood (i.e. less than 18 years of age)* or who are *young adults*, who are typically in the 20s to 30s age bracket, and represent the family's future! Drawing on the wisdom of Jay Hughes[3], we avoid the use of 'Next Generation' as *'Next' puts the emphasis on what came first and, again, that's parents or the wealth creators; they are the important ones; everyone else is just next.*"

This report is organised to answer questions in section 3 to 7 on FE leaders' views on FOs, rationale and benefits for adopting different models and implications from the study for advisors and policy-makers. The themes of the questions are listed in detail in the *Methodolog***y** section on pages 34 and 35.

[3] Hughes, J., Massenzio, S. E., & Whitaker, K. 2018. *Complete Family Wealth*. New Jersey: John Wiley & Sons, p. 39.

2. Executive summary

The purpose of this report is to summarise the insights gained from interviews of 27 Family Enterprise (FE) leaders and their approaches to utilising Family Office (FO) models for managing wealth. Specifically, the report explores:

- The results from the survey of FE leaders on the benefits of having a FO;
- What matters most to FEs and how a FO model can assist in achieving this;
- The impact of adopting a FO model for FEs and the broader society;
- Factors that influence the FO model type adopted, the barriers encountered, why some FO activities are undertaken in-house vs. outsourced to external providers and the characteristics of successful providers of FO services to FEs;
- The influences on the extent to which FE wealth will be kept together vs. divided over generations and the implications for FEs and society; and
- Implications from this study for advisors and policy-makers.

This study identifies six challenges that limit the ability of the FO model in assisting FEs in managing, deploying, growing, renewing and transferring their wealth more effectively. These challenges have implications for FEs and society as a whole. The report concludes with several recommendations for FE advisors and policy-makers on how these challenges can be overcome to benefit FEs and the broader community.

Below are recommendations of possible courses of action that advisors and policy-makers can take to address these challenges.

For FE advisors, this includes:

- Encouraging and assisting FEs to professionalise the way wealth is conceptualised (holistically – both economic and socioemotional), managed and deployed;
- Encouraging FEs to promote their philanthropic endeavours because of the positive effect it has on the FE and the contribution to society, and the opportunities to develop the rising generation of the family;
- Educating family members of the concept of a FO and the advantages of transitioning to alternative models such as a Virtual FO, a Single-FO or a Multi-FO; and
- Developing a process to assist FEs in creating a family wealth legacy orientation for their wealth.

For policy-makers, this includes:

- Educating the general public about the purpose of Private Ancillary Funds (PAFs), the laws they are governed by, and the vital role they play in raising much-needed funds for philanthropic causes and charities;
- Funding the development of a *FE Impact Index* – a holistic metric that can measure the impact of a FE on society through its business, investment, and philanthropic activities;
- Mapping the private equity ecosystem of the SME market to raise awareness of and encourage interaction between FOs and SME owners looking for capital to grow or exit; and
- Encourage state and territory governments to play an active role by partnering with FOs to fund priority investment projects.

3. Survey: benefits of having a Family Office

Overall survey results

To obtain an overall perspective of the benefits of having a FO, FO leaders were surveyed to rate their FO using 12[4] Likert-style questions, using a scale ranging from 1 (Very Poor) to 5 (Excellent). The results are presented in Appendix 1, highlighting the minimum, maximum, and average scores for each question.

Based on the questions with the highest average score (4.2 = good), FE leaders believe FOs are good at assisting their families in managing their wealth effectively, providing the support needed during family challenges or crises, creating succession plans, and successfully prepare for the future. Based on the question with the lowest average score (3.2 = average), FE leaders believe FOs are average concerning their family's awareness of their FE's broader impact on society.

Several questions exhibited significant variations in scores - specifically, questions relating to family's awareness of their broader impact on society (Q4), facilitating family communication (Q6), including family members in discussions and decisions (Q7), resolving family conflict (Q10) and developing a shared vision for the future (Q11) ranged from 1 (very poor) to 5 (very good).

Because no two families are the same, some of the variations in responses can be attributable to differences in the characteristics of the families represented and their lifecycle stage. Nevertheless, as outlined below, some of these differences can be attributed to the type of FO model adopted. These findings emphasise the relative strengths and challenges of the different FO models highlighted in the Phase 1 report of this study.

Breakdown of survey results by FO type

Of the 27 FOs represented in this study, 8 were classified as Business Family Offices[5] (BFOs), 10 were classified as Single-Family Offices[6] (SFOs). In contrast, 9 were classified as using a Multi-Family Office provider[7] (MFOs).

Appendix 2 provides a breakdown of the survey results by the three FO types represented in this study. As the chart in Appendix 2 highlights, there were significant differences in the average scores across the 12 questions. Specifically:

- FE leaders from BFOs consistently reported lower average scores across the 12 questions when compared to FE leaders from SFOs and those that used MFOs;
- FE leaders that used MFOs reported the highest average scores in all but two of the questions (Q2 – impact 3.8 vs 3.9 for SFOs; Q5 – supporting family during crises 4.3 vs. 4.5 for SFOs).

[4] For a list of the questions, please refer to section 9. Methodology

[5] **BFO** = where 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 CFO) is entrusted with managing the family's wealth outside the business.

[6] **SFO** = where the family establishes and operates a legal entity separately from its operating businesses. The Single-Family Office may have a family or non-family CEO and employ staff and utilise outside expertise. The Single-Family Office is solely devoted to providing Family Office services to a single family.

[7] **MFO** = is similar to an SFO except that offers a broader range of Family Office services to several unrelated family enterprises (a closed Multi FO). Some MFOs are owned by third parties and/or families who provide a wide range of tailored Family Office services to family enterprises of different sizes (a commercial Multi FO).

- Statistical analysis[8] suggests that the mean scores of the three FO types are significantly different for six of the questions. Specifically, managing wealth (Q1), facilitating family communication (Q6), preparing the rising generation for success (Q9), resolving family conflict (Q10), developing a shared vision for the future (Q11) and preparing for the future (Q12). This suggests that FO type has a significant effect on the FE leaders' perceptions of the benefits of having a FO.
- Further analysis suggests FE leaders who used the services of an MFO, rather than having their own SFO, are statistically significantly more likely to report higher levels of perceived benefits of having a FO when compared to those from BFOs.

In summary, the survey results suggest that the perceived benefits of having a FO vary considerably among the FE leaders.

While variation in responses may be attributable to differences in the characteristics of the families represented and their lifecycle stage, some of these differences can be attributed to the type of FO model adopted.

[8] Based on one-way ANOVA of the means scores for the 12 questions across the three groups (BFO, SFO & MFOs).

4. What matters most to Family Enterprises and how a Family Office model can assist in achieving this

What matters most to FEs?

FE leaders were asked to describe what matters most to their family concerning the wealth of the FE. Many FE leaders emphasised the need for the family to have a sense of purpose in what they want to achieve through the responsible use of their wealth. They explained that the pursuit of wealth for wealth's sake is unfulfilling.

Based on the insights received from the FE leaders, what matters most to the wealth of the family can be grouped as follows:

- ***Financial wellbeing*:** to be good stewards of the wealth to be able to provide for the financial needs of the current and future generations of the family;
- ***Family health, cohesiveness, and support*:** happiness, health, quality of life, spiritual and psychological wellbeing, gratefulness, leading productive lives and fulfil one's potential, guided by one's values;
- ***Develop the family's human capital* :** invest in the development of family members through education, providing opportunities, and the freedom to pursue their passion for becoming good and astute stewards of wealth, and have productive lives and fulfil one's potential;
- ***Contribution to society*:** through their wealth, to make a positive impact on societal wellbeing. This may be through creating jobs through business entities, supporting philanthropic causes, serving in the community, and paying taxes;
- ***Entrepreneurial legacy:*** to actively (rather than passively) use one's wealth to perpetuate the family's entrepreneurial spirit by continuing its business entities and growing new and established businesses.

Inevitably, the relative importance of the above items is not static but will inevitably change over time. For example, it may be that future generations see what matters most differently to preceding generations. As a consequence, determining what matters most should be seen as a destination but as an on-going journey.

How do families determine what matters most to FEs?

Considering what matters most to a family determines how they manage and deploy the FE wealth, we asked FE leaders a range of questions to understand how and who is involved in deciding what matters most.

The approaches taken varied according to the FO type. Specifically, when determining what matters most:

- BFOs preferred to keep it 'in-house' and were less likely to use outside assistance. Those that did sought outside help from family business advisors. Challenges experienced include the development of values and vision statements that read more like 'motherhood' statements, with a focus on the family business rather than the family entity as a whole;
- SFOs were varied in their approach. While some preferred to keep it 'in-house' (4/10), the majority preferred to use the services of an MFO (5/10);
- Of those that used an MFO, nearly all (7/9) utilised an advisor from their MFO service provider.

Those who used an 'in-house' approach did so in an informal, emergent manner, such as discussions around the kitchen table. As stated by one FE leader:

… it's not that we woke up one day and said this is what we're going to use our wealth for… it's evolved over time through the stories told to us over the years. [Participant 20]

Critical challenges encountered by families when determining and developing a consensus on what matters most included:

- A history of poor communication among the family;
- Difficulties in reconciling diverging values and interests;
- Challenges in determining who should be involved, particularly as the composition and size of the family change. For example, the exclusion of in-laws was identified as a trigger for mistrust and conflict in some families;
- Difficulties in engaging family members because of their personal circumstances or limited understanding of the FE and the nature and role of a FO. As stated by one FE leader:

  '*while our family 'gets on' quite well as a group, its culture of inhibited communication and a generally poor understanding of business and investment processes limited its ability to maximise its opportunities'* [Participant 23].
- Uncertainty about how to best engage the rising generation. Issues included at what age the rising generation should be invited to participate in such discussions and what to do when they exhibited disinterest. As stated by one FE leader: '*Honestly, we've had attempts at meetings [with the rising gen]…the more formal it is, the more awkward it felt".* [Participant 12]

How can a FO assist FEs in determining what matters most?

A FO can play an essential role in assisting families in determining what matters most. This may include playing a central role in initiating and coordinating the process, facilitating family involvement and communication, and educating family members about the FE and the role of the FO.

The survey results reported earlier suggest that FE leaders that used an MFO may be better placed to assist their families in developing a unifying vision for the future (Q11). In one sense, this is no surprise as users of MFOs also reported higher scores for helping family communication (Q6), including family members in discussions about the FE (Q7) and resolving family conflict (Q11). As one FE leader stated:

The visions and values work that [our MFO provider] does and the ability to pull people together or pull in others is invaluable. I could not overestimate just how valuable that is, and they are doing it for us right now…If the [MFO advisor] was working for us [as an employee] rather than as our MFO provider, they wouldn't be in a position to do that [Participant 7].

The above quote also highlights the importance of having someone seen as 'independent' to assist the family in determining what matters most. As one FE leader stated:

To start the conversation, it is really helpful to have someone start that for you [Participant 24].

In summary, understanding what matters most to families is essential for them to utilise the wealth of the FE in a meaningful and impactful way. Families often struggle to articulate what matters most, and the FO can play an essential role helping families determine this. While it doesn't necessarily need to be 'formal', the process needs to be intentional and inclusive. In certain family contexts, the process is best facilitated by someone who is perceived as being 'independent'.

5. The impact of adopting a Family Office model on the wealth of a Family Enterprise and society

As highlighted in the report from Phase 1 of this study, FOs have a broad and profound impact on society and the economy. For example, through their operating businesses, FEs provide 55 percent of private-sector employment, 48 percent of total private-sector wages paid and 50 percent of Gross Industry Value Added. Also, it is estimated that Australian FOs manage between $515B and $695B of wealth (excluding their operating businesses), which contributes towards the creation of 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 in Australia.

In Phase 2 of this study, we asked the FE leaders a range of questions to ascertain their perceptions regarding the impact of their FE wealth and the role of the FO in achieving this.

The impact of a FE on wealth

Analysis of the insights gained from the FE leaders interviewed suggest that effective management of the wealth of a FE has a significant impact in the following areas:

- The economic and socioemotional wealth of the family;
- Financing start-ups, innovation and business growth;
- Societal impact through business activity and philanthropy.

In many cases, the FO played an instrumental role in the coordination and deployment of resources. These are discussed further below.

Impact on the economic and socioemotional wealth of the family

Key insights from FE leaders:

- The economic returns from the FE's business and/or investment activities provide the family with a certain standard of living. For example, this may include assisting the rising generation with the finance to purchase their first home, providing seed funding to pursue a new business idea or enabling them to receive a good education. The wealth of the FE also provides the ability to support family members in times of critical need. This may be to assist in a family member's physical or psychological wellbeing to coming to the aid of a family member during a crisis.
- However, the impact of FE wealth on the family is more than economic. Family members also obtain socioemotional wealth stemming from:
    - Their involvement in philanthropy and investment activities. These are discussed further in the sections below (impact on financing…, impact on society…);
    - Family members working together with a shared purpose to have an impact;
    - Building the self-efficacy of the rising generation of the family through education and involvement in philanthropic and investment activities;

Impact on financing start-ups, innovation and business growth

Key insights from FE leaders:

- **Start-ups and innovation** - The primary motivation of FEs to invest in start-ups is not for financial wealth reasons but for socioemotional wealth reasons (self-efficacy).

  One FE leader highlighted how he has invested in over 20 start-ups, particularly in women-led ventures that the family feels passionate about:

For me, investing in start-ups is not just about the financial return…I like the opportunity to mentor some great individuals. It's also just the excitement of being involved in something new. [Participant 17]

Similarly, another FE leader who has had first-hand experience in creating wealth as the managing director of a family business emphasises the excitement of investing in new innovations with the potential impact if they're successful:

…to be honest, I'm having fun when given the opportunity to invest directly in innovative start-ups. Am I going to succeed? Possibly not, but I'm not betting the farm on it. But, if these ideas I'm investing in work, they will be transformational. [Participant 7]

- **Business growth** –

  FE wealth can be deployed to perpetuate the growth of business entities owned by the family:

  Our business has been in family-hands for over 100 years. We have a vision that by 200 years…the family will still be owning and growing the business as a family unit. We're not driving the business to sell it. Rather, we're driving it to grow and to provide the foundation for the family to grow and enjoy taking it forward. [Participant 26]

  In addition to investing wealth in their business entities and traditional asset classes (equities, fixed income, cash) through managed funds and property, many FEs have an appetite to invest in private entities directly or indirectly through private equity managed funds. Specifically, many FE leaders highlighted the strong preference for direct investment in private entities because of economic and non-economic returns. This insight is consistent with recent survey results of 150 global FO clients of Goldman Sachs[9] , which found that: '*These [Australian] family offices are starting to invest like institutions. A lot of them are looking towards low interest rates, potentially inflation and they want to buy operating companies…the family offices are going to be a tremendous source of capital and growth capital for Australian companies.*'

Based on his substantial years in advising FEs, Jay Hughes has found that the sale of a core business entity can be a traumatic event[10]. This is because many FE leaders experience a sense of loss of the economic and non-economic value attached to the business entity. John Charlton, founder of Spendless Shoes, who successfully grew a South Australian business into one of Australia's leading shoe retailing businesses, reflected on the sense of loss from selling the business in 2019:

On the day I sold the business, I was driving home in the middle of the day - which never usually happened. I pulled over and cried. I thought, what have I done? I've just given away my life! I miss being in business and the thrust of it, although I am enjoying putting energy into my own investing. But, whatever I do, I'm not going to make the same sort of money as I did in business[11].

Jay Hughes highlights, *it is fundamentally important to the successful preservation of a family's wealth that its human, intellectual, and financial capitals are not dissipated through the trauma and accompanying freezing of a family's*

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[9] Kitney, D. (2021), Goldman Sachs targets wealthy family offices in fresh push in Australia, *The Australian*, July 30th, p. 24, Melbourne, Victoria: News Corporation.

[10] Hughes, J. (1999), A Reflection on the Sale of a Family Business as an Event of Trauma, *The Chase Journal*, Vol. 3(2).

[11] John Charlton shared these reflections during his keynote speech at Family Business Australia's Insight Conference in South Australia, annual conference in June 2021. John gave permission to include his quote in this report.

energy that too often results from the sale of the family business.

It is because of this sense of loss that many FEs are driven to invest in and grow private entities. It's a way of achieving what matters most to the family. Specifically, growing financial wealth and family wellbeing, and the developing the rising generation (self-efficacy), contributing to society, continuing the entrepreneurial legacy of the family;

[For both economic and non-economic reasons] we very much like the idea of operating businesses that employ people as opposed to passive investments, not that those listed companies don't employ people, but we don't feel as close to it as we would if we were operating it ourselves… we're building something for ourselves and for the community, as well. I've just launched a business two weeks ago with my wife, who now employs 8 people. There is an amount of sentimental pride in knowing that we're providing something which gives others opportunities. [Participant 12]

We [look for SMEs] where we know we can add value with our experience of running a business for twenty-five years and successfully exiting… and just doing certain things…the other things that we are looking at are keeping a good business on-going because of the spin-off benefits to the community. [Participant 14]

As an example of the passion for investing in growing established businesses, one FO has established an investment company that focuses on purchasing and holding profitable SME businesses. In doing so, they help the founders of those businesses to exit as well as preserve the business' legacy.

Another FE leader gave an example of their economic impact through investing in a small Australian-owned business that required growth capital and board expertise. This business has expanded nationally and was successfully listed on the ASX in 2020.

Impact on society through business activities, employment growth and philanthropy

Key insights from FE leaders:

- **Business activities and employment** – as highlighted in the previous section, many FEs are attracted to operating businesses and growing SMEs through private equity investment because of the employment it provides and the associated benefits to society.

  One FE leader highlighted their proud legacy of an enduring positive impact on the community through their business ventures:

  My father was involved in these long-term projects and was all about leaving a legacy…When he was very ill, one of the last things we did with him was taking him out to visit one of the most significant projects he was involved with, which was finished a decade ago. There were good financial returns from the project, but it was also all about the community. He used to go out there and flip sausages once a month with the community. Now community-building today is a very sophisticated component of our business…Public companies spend a considerable sum of money on consultants in community building. Still, sometimes you wonder whether it's the more authentic just to flip a sausage on a barbeque. I think that's why we do pride ourselves on it… that's that legacy part we talk about with our staff and that's one reason why I think our staff like working for us as opposed to big public companies which have staff turnover which we don't have. [Participant 22]

- **Philanthropy** – FEs were active in giving to a range of different philanthropic causes, including medical research, education scholarships, supported community initiatives from environmental and social needs to the preservation of places of national heritage, and being the principal sponsor of a university-based research centre. As stated by one FE leader:

  We're passionate about doing what we can to help society have the lowest impact on the environment and lead sustainable lives. [Participant 10]

Several FE leaders highlighted that philanthropy is more than merely giving money to worthy causes. Many family members give of their time and expertise by serving on boards or sub-committees of philanthropic organisations.

Philanthropy was identified as a great way to make a positive contribution to societal needs; it can also be a great way to develop the values, work ethic, knowledge and skills of the rising generation…

Philanthropy] was an excellent way to educate the kids a bit and give back something to the community. The MFO does all the admin, and we have governance meetings to identify charities or organisations that meet the regulatory framework and the rules [we've established]… they're pretty good. The kids quite enjoy it, and…it's been a great way to educate them on other aspects such as why you might use trust structures to protect assets. [Participant 16]

Similarly,…

We've established a giving project where we'll give them five hundred dollars each where they're required to research a charity, complete a one-page summary they want to give to the charity, and report back to the family to explain why… That's a process we'll run from now until they're eighteen, hoping that that will evolve into them understanding more about our values, what wealth is for, the community needs, and building unity by doing it as a family…So, by the time they are sixteen, we can start getting them involved in more complex decisions regarding the family enterprise…The aim is to develop them into well-rounded individuals for the benefit of the present, but more importantly, future generations, personally and for the community. [Participant 20]

Philanthropy also presents another opportunity for family members to connect with each other around what they're passionate about. As the example below highlights, one FE used philanthropy to encourage intergenerational connections while developing the rising generation…

We ask [the rising generation] aged from eight upwards to join the philanthropy committee. This is a committee formed entirely of the grandchildren. They are mentored by their grandparents in the formation and running of the committee. They have been in operation now for two years and manage the available family giving. Currently, this is in preparation for two years when the family's large philanthropy commitment to [a university] is completed. They will then have a more significant sum of funds in which to look at managing from a philanthropic perspective. [Participant 19]

The effect of FO type on impact

Based on what matters most to families with regards to FE wealth, it is no surprise that FE leaders deployed their wealth to have an impact in the following areas:

- The economic and socioemotional wealth of the family;
- Financing start-ups, innovation and business growth;
- Societal impact through business activities and philanthropy.

The survey results and insights from the FE leaders interviewed suggest that the FO model adopted influences the impact of FE wealth. Specifically, FE leaders that have an SFO or used an MFO reported higher scores for achieving what matters most when compared with those with BFOs. They also reported higher scores of the families' awareness of the achievements of what matters most.

These survey results are supported by the insights gained from the interviews of FE leaders. For example, transitioning from a BFO to an SFO or to using an MFO resulted in:

1. FEs adopting a more professional approach to philanthropy and consequently, increasing the effectiveness of their philanthropic giving.

   When we were running the business, we just had no time to conduct philanthropy in a meaningful way… back then, someone would tap you on the shoulder, and you'd say sure. Since establishing a family office, we now have the time and resources to be much more diligent who we give our funds to, using criteria such as the nature of the cause, reference checking, % admin costs incurred, etc. [Participant 14]

   Because of their in-house expertise, several FE leaders stated that MFOs played an important role in assisting their FEs in developing and executing a philanthropic strategy and establishing appropriate structures to support the strategy, such as Private Ancillary Funds (PAFs).

   …they showed me how I could do it efficiently and set up a structure to involve my wife and the kids when they are ready...[the use of an MFO] has helped me identify a couple of charities that I'm supporting that I probably never would have found... I think they've made a difference to people…hopefully, my kids can do the same thing… I just had my own charity without using [the MFO]. I don't know that I could handle the administration because of how many letters the MFO receives. [Participant 18]

2. Transitioning from a BFO to an SFO or the use of an MFO, often resulted in the adoption of a more professionalised approach to managing the wealth of the FE. For example, as part of transitioning to a portfolio management approach to their wealth, FEs were allocating a percentage of their wealth to invest in start-ups or established businesses to facilitate growth.

   One of the outcomes of the vision, values, purpose exercise is going to be a strategic asset allocation [to invest in privately-owned businesses] which is something that hasn't been in place previously. [Participant 24]

   Based on the insights gained from the interviews of FE leaders, FEs have a strong appetite (for financial and socioemotional wealth reasons) to invest in established businesses to facilitate growth.

Despite the above, three challenges that limit a FO's potential impact were identified. These are as follows:

Challenge #1 - Self-advised approach to wealth management.

A number of FOs represented in this study utilised a self-advised approach (sometimes with assistance from external advisors) when investing the wealth of the FE. This was because they felt they had the skills to do so and/or enjoyed the 'hands-on' role of managing wealth. This creates two potential but related problems:

- Using the chicken (assets) and egg (income) analogy, the challenge FEs face is determining the right balance between consuming the eggs today (income) vs. using them to hatch chicks and grow more chickens (assets). FEs need the financial discipline, expertise and stewardship to ensure the economic wealth of the FE grows to meet the needs of future generations as the size of the family grows.
- Several were unaware of the benefits and opportunities of allocating a portion of wealth to direct private equity investments. Consequently, FE wealth may not be actively put to good use as it could be.

In sum, there is a need among some FOs to professionalise the way wealth is conceptualised (holistically), managed and deployed.

Challenge #2 – perceived lack of private equity ecosystem catering to the SME market.

There is untapped potential to encourage FE to be more active investors to stimulate the growth of established SMEs with the combined use of their expertise and capital. To realise this, the following hurdle needs to be addressed: the *perceived lack of private equity ecosystem catering to the SME market.* Despite the appetite to be active in direct investments in SMEs, many FE leaders suggested a perceived gap in the private equity market that brings FO investors and SME owners together and encourages investment.

As stated by one FE leader, '*We would jump at opportunities to invest in businesses of appropriate size and turnover that we felt we could grow…if that meant the business continued to employ and grow, it would align with our vision of growing businesses.* [Participant 12]

Compounding this problem is the belief that their SFO or MFO did not have the capabilities to best identify SMEs looking for private equity investors or cost-effectively undertake the due diligence.

An estimated $4 trillion of wealth will be passed between generations in Australia over the next two decades[12] as the Baby Boomer generation looks to retire. For many Baby Boomers, this will involve exiting as owners of their SMEs. Therefore, the opportunities for FOs to directly invest in SMEs will increase in the coming years.

But there is a lot of old money, lazy money, in this State, that's managed by external parties really with no real insights [of its potential]…The most effective economy is where institutional and corporate capital is complemented by a very active private investment sector, which is ultimately family money. [Participant 5]

Challenge #3 – the philanthropy paradox.

Despite the advantages of increasing the impact of FE wealth by transitioning from a BFO to an SFO or the use of an MFO, all FEs struggle to recognise and communicate the impact of their wealth on the broader community…

We've mobilised our wealth and created jobs…I don't think we've celebrated some of our broader community related successes as we should have…[because of] self-preservation, not wanting to put their name out there too much [for fear of] social media.[Participant 5]

This is consistent with the survey results where all three FO types (BFOs, SFOs, MFOs) reported low levels of the family's awareness of the achievement of what matters most.

Understandably, many FEs prefer to keep their financial affairs private to avoid the negative attention that it can bring and fear being cut down by the 'tall poppy syndrome'. Nevertheless, the challenge for FEs is the growing importance of communicating the broader impact their wealth has on society when concentrated wealth is receiving an increasing amount of negative attention[13]. However, based on research on the associated impact[14], FEs should be encouraged to promote their philanthropic endeavours because of the positive effect on the FE and the contribution to society. As stated by Australia's mining magnate Andrew "Twiggy" Forrest, "*If you are not prepared to stand by it, it almost looks like you are not proud of it…it is about the example it sets in the community. So, we decided to give publicly and encourage philanthropy*'[15].

As one FE leader highlighted…

If you don't share positive stories about how private wealth can create either environmental successes, social growth or community, then it doesn't perpetuate itself [as] it doesn't inspire others to do the same. So, I think that profiling the role of private families in relation to communal outcomes, whether

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[12] Kitney, D. (2021), Goldman Sachs targets wealthy family offices in fresh push in Australia, *The Australian*, July 30th, p. 24, Melbourne, Victoria: News Corporation.

[13] See for example, the recent report released by the Institute for Policy Studies, an influential US-based progressive think tank: https://ips-dc.org/report-americas-wealth-dynasties-2021/

[14] Feliu, N., & Botero, I. C. 2016. Philanthropy in family enterprises: A review of literature. Family Business Review, 29(1): 121-141.

[15] Generous Twiggy's burden of billions. (2013, October 15). Australian Associated Press.

they be financial or other, would be an important first step [for family enterprises]… the government can play a role in helping to insulate families from some of those risks of that celebration. [Participant 5]

6. Factors influencing the adoption of a Family Office model

Triggers for establishing a FO model

There are common catalytic events that often bring about the need to adopt a more coordinated approach to managing the wealth of the FE. Based on insights gained from the FE leaders interviewed, these included:

- Growth in the wealth of the FE;

  Most people start off with an accountant… but you need broader advice when your wealth multiplies, such as investment advice. [Participant 16]

- Generational change or planning for future generational change;

  Dad was focussed on managing the family enterprise for his generation using a family trust and taking yearly advice from different accountants with no real written-down plan for the future…Once our [the rising] generation took over the responsibilities for leading the family enterprise, our thoughts turned towards structuring and managing the wealth for the rising generation and beyond. [Participant 19]

- A liquidity event;

  …when we had this liquidity event [selling of the business], we really needed to reorganise and manage our wealth under one umbrella. We thought about employing an accountant, but we decided the use of an MFO structure would be better. [Participant 17]

Factors influencing the type of FO model adopted

Based on the survey results, the FO model adopted does appear to influence the perceived effectiveness in managing FE wealth. Specifically, FE leaders that used an MFO, rather than SFOs, are statistically significantly more likely to report higher levels of perceived benefits of having a FO when compared to those from BFOs.

This raises an important question: if FE leaders report higher levels of perceived benefits from utilising an MFO, why do some adopt a BFO or an SFO? FE leaders were asked a series of questions in the interview to understand their perspective as to:

1. What type of FO structure does the family prefer and why?
2. What types of FO services do you prefer to undertake internally vs. be provided by outside advisors, and why?
3. What are the characteristics of a successful relationship with those that provide the Family Office services? Do these differ according to whether they are employed within the Family Office or supplied by outside providers?

Preferred FO structures

1. **Influence of primary source of wealth creation**

   Of the 27 FOs represented in this study, eight used an FO approach classified as a BFO. In the main, this FO approach was seen as part of a journey in transitioning from a 'family in business' mindset towards a 'family enterprise' mindset. Consequently, using a BFO model was more so a reflection of the lifecycle of the FEs and where they had generated most of their wealth from (i.e. through a business entity (or entities)).

   Conversely, FE leaders were more likely to utilise an MFO service provider when most of the wealth had been created by having professional careers or inheriting a significant sum of money.

   I had a very good career…and I've done very well on the stock market…and so I didn't have any money until reasonably late in life. I'm a qualified accountant and have significant experience in *managing businesses. But I have no experience in how families go managing and how to pass that on, etc. I was looking for an organisation that would be there long term to look after the financial affairs of my family when I'm no longer around So, that was a bit new to me in that respect, but I spent a fair bit of time on it because, initially, I thought I knew what I wanted. Still, then when they went through it with me, I realised I didn't know exactly what I wanted, and the MFO provider helped me sort that out. I was very pleased with the result, actually. [Participant 18]*

2. **Relative costs of different FO models**

   FO options available to FEs will primarily be influenced by the size of their wealth. The larger the wealth, the greater the ability to justify the costs of establishing an SFO.

   With an SFO structure, you need to find suitable accountants, legal advisors and other advisors which will cost you x. When I went to using an MFO provider, my cost was x divided by 2. So, first and foremost, the use of an MFO is a cost-effective way of doing it. [Participant 7]

   For this reason, many will choose to use an MFO provider or try and coordinate the FE with the use of Virtual FO providers (VFOs)[16]. However, some will be 'stuck in the middle' of a transition to a more appropriate FO model because of insufficient wealth to finance the change.

   We're ready to transition from a BFO to an SFO or use an MFO provider, but we're not quite big enough wealth-wise to justify a family office. The challenge we face is that the family members working within the BFO can't also take on managing the family side, which I think is critical to our future [Participant 25]

3. **Preferences of the family**

   Ultimately, it's the family enterprise leaders who decide what FO configuration they're comfortable with. Below are some preferences that influence the FO model adopted and to what extent FO activities are performed within the FO structure adopted vs. outsourced to external service providers.

   - ***Preference for control or active involvement*** – often, family members desire 'hands-on' involvement in key aspects of the FO, particularly when it comes to managing their business entities, investment portfolios, and participation in direct private equity investments. In many cases, such preferences will steer families to adopt an SFO type model where they may outsource some activities such as compliance and administration and rising generation development to external providers such as VFOs or MFOs. Some see this as more a preference for the 'wealth creators' of the family because of their skills in running business entities and managing wealth.

     … the first generation of wealth creators, in my view, find it harder to outsource or delegate to service providers and then the second and third and fourth allow it. Because the first-generation wealth creators have made the wealth themselves, they feel they know what to do. [Participant 6]

     Some families choose to be actively involved because of the personal satisfaction it provides or due to a lack of trust in FO service providers (refer to the rising section regarding the three distinct dimensions of trust).

[16] VFOs = 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 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.

- ***The desire to learn*** – some family members have a deep desire to learn essential aspects of managing wealth and educate the rising generation through taking on responsibilities of running an FO. Consequently, they may be more likely to adopt an SFO approach and acquire the additional expertise not resident within the family by using external providers such as VFOs or MFOs. In contrast to this view, one FE leader, perhaps due to the complexities of his FE, suggested he'd learn more by using an MFO provider because of the ability to learn from other families that use the MFO…

  …well, it's a big job managing a family asset base with the people involved. So, I think the multi-family office is a much better place for comparing notes with other people. [Participant 2]

- ***The desire for freedom to focus on what matter most*** – some family members want to be set free from the administrative burden of managing and coordinating wealth. Instead, they have a deep desire to channel their energies into what matters most to their family. Such families are more likely to use an MFO provider for managing the wealth of the FE. As one FE leader stated, by using an MFO provider, he has freed up his time to focus on his passion – wealth creation through investments in technology start-ups and established businesses. He believes he has been able to achieve five times more as a result.

- ***The desire for an integrated but flexible, whole-of-family approach –*** one of the perceived benefits of MFO providers is that they offer a broad range of FO-related services, providing better coordination of advice to meet the specific needs of the FE and family as a whole.

  Using an MFO provider gives us a family focus which an accounting firm doesn't provide you… I'm all about upscaling my family so that they can actually walk in and take control in the future…An accounting firm starts with 'I'll do your numbers for you'. Well, that's great. When you walk into an MFO, they begin with "I'll look after your family for you"…If you look after my family – not me but my family – then you'll probably have us for a generation or two. [Participant 2]

  It also provides families with the flexibility of choosing the level of support they require versus What they undertake themselves.

  We settled on using an MFO because of the complete backup of resources if an event takes out your entire team in one fell swoop. There is a cost involved, but that cost is reasonable in comparison to alternatives. [Participant 2]

  …if I get to the point where I don't want to spend the time, or I'm not capable of doing what I am doing now, I can transfer either all or parts to the MFO provider just as if I'd passed away.[Participant 18]

  One FE leader suggested that MFO providers are better placed to assist in succession planning and rising generation development because of the level of independence, objectivity and focus an MFO provider can bring…

  there is less succession planning when you have a single-family office because you have to run it like a business. [Participant 7]

  Consistent with the survey results that suggested MFOs were more effective in developing succession plans than SFOs and BFOs.

- **Family expertise and interest**
  - ***Perceived expertise within the family***

    Some families will be of the opinion that the expertise required to run a FO resides within the family. Consequently, they may be more likely to adopt an SFO approach and acquire the additional expertise not resident within the family by using external providers such as VFOs or MFOs.
  - ***Family interests and family functioning***

    Past involvement in managing business entities and creating wealth may also encourage family members to utilise an SFO model and actively manage the FE wealth. Alternatively, a family with little interest in being involved, or one whose interest has waned over time, may be more inclined to use an MFO provider.

    In some situations, family functioning is lacking within the FE. Consequently, utilising a BFO or an SFO tends to be less ideal. In such cases, FEs are more likely to use an MFO provider because of the perceived independence and objectivity it can bring to managing the wealth of the FE.
- **Perceived expertise of FO advisors**

  Some FEs that used MFO service providers chose to utilise the services of a VFO when they believed the required expertise did not reside in the MFO. The expertise sought outside the MFO typically centred around investment advice and management consulting services.
- **Relationships with advisors**

  The quality of a family's relationship with critical providers of FO services will significantly influence the overall FO model adopted. Often a FE utilises the services of a VFO (e.g. accounting firm) because of the patriarch's or matriarch's long-standing relationship with their external accountant. When control passes to the rising generation or the external accountant retires, the FE will consider adopting an alternative FO model for managing their wealth. Based on research conducted by the Institute for Preparing Heirs, over 90% of heirs change advisors upon receiving their inheritances[17].

Several FE leaders expressed concerns when their FO model is dependent on a particular capable individual or advisor. They highlighted the advantage of using an MFO provider because of the depth of talent…

…the risk is if my key advisor walked out the door then I've got to find another person with the unique combinations of skills and experience. Using an MFO, if my key advisor leaves, the MFO will find somebody else to do it….Using an MFO gives me all the things I need [Participant 2].

Some FE leaders highlighted that they joined an MFO when one of their key FO advisors moved to work for the MFO provider.

Others highlighted that they decided to use an MFO provider as opposed to a VFO model or established their own SFO with some activities outsourced because they can cater for the individual needs of all the family members:

I don't want to be rude, but I can get your services from anybody. If you look after my family – not me but my family – then you'll probably have us for a generation or two.' Now that means looking after the individuals, not just the accounting. So, it was – the starting point was different.[Participant 2]

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[17] Institute For Preparing Heirs. 2019. *Advice Beyond the Money - Preparing Families to Prosper and Thrive for Generations*. Pasadena, California.

Challenge #4 – transitioning from a BFO

In addition to the three challenges that limit a FO's potential impact outlined on pages 15 and 16, we identified an additional challenge:

Insights from FE leaders who utilise a BFO approach highlighted the challenges they face in transitioning to a more appropriate FO model, whether an SFO or using an MFO. Referred to earlier in this report as being 'stuck in the middle' of a transition. Three hurdles to overcome were identified:

- ***Cost of alternative FO models*** – this was discussed earlier in the report, covering the challenges of having insufficient wealth outside the business entity to afford the transition to a more effective model;
- ***Views about wealth*** – previous ways of thinking about wealth perpetuate through the generations. This includes the family having a strong identity with a business entity and reinvesting wealth back into the business instead of diversifying outside the business (family business versus family enterprise mindset). The other is restricting attitudes towards wealth, limiting discussions and planning for managing wealth in the future, and ways in which the wealth can be used to positively affect the family and the broader society…

  Our father wouldn't even talk about wealth… the word 'wealth' was seen as a dirty word within our family…as a consequence, in my generation, we wouldn't raise the issue about wealth. In recent years, the different branches of the family have come together to discuss wealth, and it was too late as things were in a real mess… We've decided to divide up the wealth and go our separate ways. [Participant 23]

- ***Lack of understanding of the FO approach*** – limited knowledge of what a FO approach is, what benefits it will bring vs. the known costs and broad family commitment…

  It has to be something they willingly see some merit in…the challenge is many individuals can't grasp what a family office is and push back with 'What are you talking about?' [Participant 5]

  I've been volunteering in the role of chief family officer, which involves organising family council meetings and family forums. I'm trying to drive an FO approach because I feel like I really want to put into place a family learning and rising-gen learning program. But because I'm not formally employed by the business, I feel a little hamstrung because everything gets approved through the business. The business board has to decide whether it can justify the expense to create a [FO] role for me… That's when it starts to get a bit challenging and a bit territorial…So while the family council has approved the creation of the position, it really makes you question the value the family is putting on the business side of the business versus the family side of the business… We need to establish our next steps to get a family office set up, either by using an MFO or another way. We need to get the family aligned to drive this forward. [Participant 25]

As highlighted in the research report for Phase 1 of this study, despite the advantage of being inexpensive through the use of existing resources available to the family, a BFO approach has several disadvantages, including:

- High dependency on employee(s) entrusted with responsibility for assisting in the management of their wealth;
- The limited scope of services and expertise as dependent on employee(s);
- Not suitable for when complexity increases;
- High level of risk exposure stemming from having the family wealth tied up in a business entity (undiversified risk) and the negative effect this has on innovation and

entrepreneurship within the family's decision-making[18] ;
- Vulnerable to family conflict, dominant family member, lack of family commitment.

Based on a research report by the Family Office Exchange[19], the following actions can assist in transitioning from a BFO to a more appropriate FO structure:

1. Ensure that all family members understand the need and support the decision to separate FO activities from the business;
2. Clearly define the roles of the family office or wealth advisor;
3. Gain the support of the operating company in the separation process;
4. Articulate and defend the costs associated with wealth management to all family members;
5. Select advisors who understand and are comfortable working with the operating company;
6. Give the same attention to family issues that is given to business issues; and
7. Ensure that the new family office or wealth advisor has the authority to make appropriate decisions.

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

In Phase 1 of this study, expert FO advisors believed the most important elements of a successful engagement with their family enterprise clients were:

- ***Knowing the family*** – the passion and commitment to developing a comprehensive understanding of the family enterprise client;
- ***Trust*** – wholeheartedly trusted by the family enterprise client; and
- ***Relational*** – it's not transactional, but relational. It's long-term in nature, with a sincere concern for the client. It's as much about the journey with the client (highs and lows) as it is in the destination (realising their vision).

Overwhelmingly, what was clear from the FE leaders' insights is that the most successful element of a relationship between a FE and the FO advisor is trust. Trust is a multidimensional construct and is argued to consist of three distinct components – competence, benevolence and integrity. Insights from the FE leaders interviewed about these three important aspects of trust in a FO advisor relationship are highlighted below.

- **Competence -** the belief that the FO service provider has the ability to deliver the service required as promised. In the FO space, the particular competencies valued include:
  - ***Depth and breadth of technical expertise*:** in the areas of investments, accounting and taxation, legal structures and advice, philanthropy, business and family governance, management consulting;
  - ***Understand families'*** *dynamics, complexities and lifecycles*: experience in working with many families, being able to lead and listen at the same time, understand the family as a whole and the individuals within the family system, be able to foresee future issues to be addressed based on experience in working with other families, and be able to deal with challenging family

[18] Becerra, M., Cruz, C., & Graves, C. 2020. Innovation in Family Firms: The Relative Effects of Wealth Concentration Versus Family-Centred Goals. Family Business Review, 33(4): 372-392.

[19] Family Office Exchange (2011), *Taking Care of Business: Case Examples of Separating Personal Wealth Management from the Family Business*.

dynamics without taking it personally, also, can engage the family as a whole and not just the patriarch or matriarch who may be paying the bills;

- ***Rising generation development*:** have the skills, abilities and programs to engage the rising generation and prepare them for the future;
- ***Communication:*** the ability to communicate information regularly in ways that enable the family to engage in the journey. This requires tailoring information to a level suitable for the different generations of the family, from the patriarch or matriarch of the family down to the rising generation;
- ***Proactiveness:*** many families desire their FO advisors to be proactive in responding to future needs of the FE, whether that be investment and tax planning or rising generation development. As one FE leader described using an analogy, "We want a FO advisor who's like a doctor who rings us and tells us it's probably time to have a check-up or these tests rather than one who we see when we're sick and says you will need to go and have this treatment to manage the disease".

…the thing I like about using an MFO provider is they've got the culture about helping you and have the people who are very experienced in working with families. Also, you have the option of only using some or all of their services, depending on your needs and preferences. For instance, if I decided tomorrow that I didn't want to spend any time on finance at all or maybe I have a stroke and am incapacitated they can take on these additional responsibilities in the way we've agreed on and documented. [Participant 18]

- **Benevolence -** the belief that the FO service provider has the family's best interests at heart, is approachable, and genuinely cares about them as a client.

During the challenges we faced as a family with Dad's illness, our MFO provided a considerable amount of practical, pragmatic, and emotional support – particularly for Mom. It's difficult to capture just how significant their impact has been…and that's the type of service MFOs can provide. I don't view them like the accountant or a taxation specialist. I view them as people with whom I have a really wonderful working relationship. They actually care very deeply about us. [Participant 24]

- **Integrity -** the belief that the FO service provider is values-driven, acts honestly, genuinely, forthrightly, objectively and independently [without favouritism], maintains confidentiality, security of information systems, conservative, strong and responsive work ethic, with a long-term stewardship perspective.

7. Develop vs. distribute: Family Enterprise wealth continuum

As highlighted in the Phase 1 report of this research on Australian FOs, 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. 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].

Let's make one thing clear – failure is NOT about:

- Whether wealth is kept together or divided among heirs;
- Whether a business entity remains in family hands or is sold off.

This is because the above two points are examples of FEs reconfiguring their wealth rather than a measure of success or failure. Rather a failed wealth transfer refers to when beneficiaries lose control of their wealth through any combination of causes within their control. These may include poor tax and estate planning, litigation, foolish or reckless expenditures, business losses, bad investments, missed market opportunities, mismanagement, inattention, incompetence, family feuding, or other causes within their control.[22]

Failed wealth transfers result in losses to families and society as a whole:

Potential losses to families and society

- ***Diminished financial wellbeing*****:** less wealth under control means a diminished ability to provide for the financial needs of the current and future generations of the family;
- ***Erosion of family health, cohesiveness, and support*****:** family feuding on issues surrounding wealth erodes the family's happiness, health, quality of life, spiritual and psychological wellbeing;
- ***Reduced opportunities to develop the family's human capital*****:** the diminished financial wellbeing and erosion of family cohesiveness reduces opportunities to develop family members through education, developmental opportunities through business entities, wealth management and/or philanthropic activities;
- ***Contribution to society*****:** less able to make a positive impact on societal wellbeing. This includes the diminished role in creating jobs through business entities, supporting philanthropic causes, serving in the community, and paying taxes;
- ***Entrepreneurial legacy:*** diminished ability to perpetuate the family's entrepreneurial spirit by continuing its business entities and growing new, and investing in start-ups and innovation.

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[20] Rosenblatt, C. (2011), Wealth Transfers: How to Reverse the 70% Failure Rate, *Forbes*, available at https://www.forbes.com/sites/carolynrosenblatt/2011/12/09/wealth-transfers-how-to-reverse-the-70-failure-rate/#362b573a2879

[21] Ward, John (1987). *Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability, and Family Leadership*. Jossey-Bass Publishers, San Francisco. [note – the 33:13:3 statistic should be interpreted with caution in that from a family enterprise perspective (as opposed to a family business perspective), a family exiting as owners of a business entity (captured in these statistics) may be a logical decision from a wealth management perspective and consequently not be seen as a 'failure' per se.

[22] Williams & Preisser (2010), *Preparing Heirs: Five Steps to a Successful transition of Family Wealth and Values*, Robert D. Reed Publishers, San Francisco, p. 15.

Interestingly, the study on failed wealth transfers suggested that it was NOT due to poor financial or legal advice or administration as FEs were serviced well in these areas. Instead, it was attributed to three reasons:

- *Breakdowns in communication and trust* within the family (attributed to 60% of wealth failure);
- *Inadequately preparing heirs* for responsibilities of wealth (attributed to 25% of wealth failures);
- Other issues such as *not having a unified sense of purpose* for the wealth of the FE (attributed to 15% of all wealth failures)[23].

"Families need to put time into working out whether they want to keep family wealth together or do they want to be separating it… probably one of the greatest myths out there is that by keeping it together equals family cohesion and unity. There needs to be a net benefit to do so, which involves assessing financial benefits, for sure. But also, consideration of non-financial benefits such as your family cohesion… I think a by-product of talking about this is family cohesion; even though it might cause a bit of tension, at least you're all on the same page" [Participant 24].

Consistent with this are the sentiments expressed by one FE leader, that despite the significant growth in financial returns and distributions to family members over time the unity of the family continued to decline. In sum, economic growth alone is not sufficient to keep family wealth together.

Based on prior research[24] and insights gained from the interviews of FE leaders, the outcomes (impact) of a FE's wealth are influenced by various factors (see the model in Appendix 3).

Regardless of whether it's explicit or implicit, all FEs have a family legacy informed by history (1), which can be the combination of:

- *Biological legacy* – legacy artefacts that pertain to a family's bloodline or family name. A biological legacy may be in terms of continuity of control of business entities or the FE's wealth. It may also involve perpetuating the family's standing and impact in society through cultivating and realising the full potential of family members;
- *Material legacy* – legacy artefacts that pertain to a family's wealth. This may relate to preserving or growing the wealth generated by the founding generation. This may include perpetuating business legacies, historical family artefacts, and growing the economic wealth of the FE;
- *Entrepreneurial legacy* – legacy artefacts that pertain to a family's wealth-creating endeavours. This may relate to a family's stories of past entrepreneurial efforts and achievements or stories of resilience and the ability to overcome challenges and hardships; and
- *Societal legacy* – legacy artefacts that pertain to a family's impact on society. This may be in terms of the jobs created through the family's business entities, its philanthropic activities, or active involvement and engagement with local communities.

As outlined in the *Family legacy orientation in the Family Office* model in Appendix 3, a historical family legacy (1) informs the family's legacy orientation (2), the extent to which this historical legacy orientation is perpetuated or refined is influenced by family guiding coalition (3), who are the family members who have ultimate

[23] Williams & Preisser (2010), *Preparing Heirs: Five Steps to a Successful transition of Family Wealth and Values*, Robert D. Reed Publishers, San Francisco, pp. 35-49.

[24] Hammond, N. L., Pearson, A. W., & Holt, D. T. (2016). The quagmire of legacy in family firms: Definition and implications of family and family firm legacy orientations. *Entrepreneurship Theory and Practice*, 40(6), 1209-1231.

influence (whether direct or indirect) over whether the family can reach a consensus regarding a unifying legacy of the FE's wealth (4).

Consensus regarding the family wealth legacy orientation will influence what proportion of the FE's wealth will be kept together to pursue a legacy together vs. what proportion will be distributed to the heirs to pursue legacies of individual family members or branches of the family (5). This, in turn, influences the overarching purpose and strategic decision-making of the FO regarding managing, deploying, growing, renewing, and transferring the FE's (economic and non-economic) wealth (6). As highlighted in the diagram in Appendix 3, the interactions between steps 3 to 6 are influenced by:

- *Family Office model adopted* – based on findings presented in this report, the adoption of an appropriate FO model significantly influences the extent to which a family can reach consensus on what matters most and achieving what matters most;
- *Governance* – refers to the mechanisms in place to assist the FE in achieving its economic and socioemotional wealth objectives of the family. This includes business governance mechanisms such as a board of directors and advisory boards, and family governance mechanisms such as family councils, family forums, and family constitutions/charters;

  You've got to communicate all the time about the family enterprise…the more you can communicate with each other, the better and the less likely you are to have a conflict [Participant 11].

  …one of the most challenging but important pieces of work that we've done, which took 2 years to do as a family, was deciding on the policies, process and mechanisms around enabling a family member to exit…the worst thing you want to do is make them stay in golden handcuffs because that's worse, that's the most disruptive thing we could do…there are many valid reasons why a family member may need to exit such as poor health or a traumatic event [Participant 13].

- *Family functioning* – refers to the family's ability to problem solve, communicate effectively, assign and carry out roles responsibly and appropriately, affectively respond appropriately in a range of situations, appreciate each other's activities and concerns; appropriate behavioural control and general functioning (an independent encapsulation of the above, to indicate overall health)[25].

  As stated by one FE leader, *I'm absolutely convinced that, if family members don't want to see each other as part of their regular lives, then that's not a good starting point for having a reason to remain connected to each other in some financial sense or in some shared philanthropic activity… generally "the family that plays together stays together" is probably a better predictor than the family that has wealth together stays together... Respect and friendship between and across generations is generally the best predictor. Those families that have sort of found an effective way to accommodate family members who wish to live independent lives away from the family is the hallmark of a family that's got its act together. [Participant 1]*

The FO, governance and family functioning work together, as the absence of one can't necessarily be fully compensated for by the other two. For example, some FE leaders highlighted the detrimental effect of distrust among the family, fuelled by a lack of communication about the FE and perceived inequity with the way the wealth has been managed. This is particularly the case when some family members worked in

[25] Stevenson-Hinde, J., & Akister, J. (1995). The McMaster Model of Family Functioning: Observer and Parental Ratings in a Nonclinical Sample. *Family Process*, 34(3), 337-347.

the FO or business entities, while others do not. This often resulted in family members having different levels of psychological attachment to particular FE activities or assets or having access to information that is not readily available to other family members.

Division within the family often results from not all family members work in the FE, which can create perceptions of inequitable power, influence, and financial rewards. This can lead to jealousy, family disharmony and self-interest taking over. [Participant 5]

The importance of developing a shared sense of purpose for their collective wealth is widely recognised among the FE leaders interviewed. Insights gained from the interviews clearly suggest two challenges in bringing this about, which are outlined below.

Challenge #5 – Process for developing a family wealth legacy orientation (steps 1 to 4 in the model)

In addition to the four challenges that limit a FO's potential impact outlined on pages 15, 16 and 22, several FO leaders highlighted another challenge, namely, in developing a unified legacy orientation among the family.

…we do believe in the legacy that our father has left us, but we don't see ourselves keeping everything together and trying to force it all together for the rising generation. [Participant 22]

Some believed it was because of the inability or unwillingness to engage in the process.

I continually come across people who are absolutely destined for the 70% wealth transfers fail group… they'll say things like, "Why on earth would I share the company's financials with my kids? I don't trust them with that"… So, it's just not about communication; it's about personality types and the unwillingness to start those conversations. [Participant 14].

These conversations often didn't occur because of the fear surrounding what might happen when they are initiated. This is particularly the case when there is an underlying fracture in the family or a level of distrust between particular family members.

For others, it's about trying to identify something that will unify the family going forward - a reason for staying together. This is particularly the case when legacy assets, such as the family's primary business vehicle, had been sold off…

It's very hard to feel engaged with cousins if all you're talking about is a portfolio of shares but no real link to anything that went before. [Participant 12]

Insights from the FE leaders suggest:

1. The important role of an independent facilitator who can assist in creating the space where such conversations can occur in a structured, intentional and constructive way;
2. Philanthropy can be one helpful way to develop a unified family enterprise wealth legacy orientation…

   We've heard that philanthropy is a crucial tool or opportunity to help bring families or keep families together, particularly once that core entity has been sold off. [Participant 12]

   The growing focus on sustainability globally presents opportunities to develop a legacy orientation around creating new ventures with a sustainability focus (entrepreneurial and societal legacies). It also provides opportunities for engaging and developing the rising generation of the FE and educating them about purpose, shared values, and principles that stretch beyond the business's traditional financial goals[26].

3. The use of storytelling and narrative about the family's history can be a powerful and productive way of identifying historical legacies and developing a unified legacy orientation for the future. As stated by Jay Hughes,

   A family that hopes to preserve its complete wealth over time must learn to keep its stories alive. It is the only way the family itself will continue[27].

   Storytelling and the use of narratives can affect imprinting the entrepreneurial and wealth creating legacy on the rising generation of the family. As stated by McAdam and Alrubaishi (2021)[28]

   Such stories have entrepreneurial legacy that is passed from each generation to the next. For example, a narrative about the family's achievements and how it survived tough times. Stories are therefore mechanisms by which values (both familial and entrepreneurial) can be transmitted across to the rest of the tribe, and within a family business a lot of these stories are transmitted across the kitchen table. Stories can also have a mentoring role and can act as inspirational tales and catalysts in the perpetuation of these behaviours, as "surrogate mentors".

Challenge #6 – Building in flexibility to accommodate the different needs and purpose of family members (steps 5 and 6)

In addition to the five challenges that limit a FO's potential impact outlined on pages 15, 16, 22, and 28, several FO leaders highlighted another challenge, namely, the challenge of catering for different needs of the branches of the family as they progress through the family lifecycle. Some family members may be entering old age, others may have young children, and others may have children who have entered the workforce and are getting married or looking to purchase their first home.

Referred to as 'Step 5 - *Develop versus Distribute FE wealth continuum*' in the model presented in Appendix 3, families should understand whether FE wealth is developed together versus distributed to heirs as the extremes of a continuum. Insights from the FE leaders interviewed highlight the need to build in some degree of financial independence between the branches of the family. This enables family members to have the independence to pursue what's important to their immediate family and keep a portion of the wealth together because of the benefits of doing so as a collective.

…family members have the ability to 'come and go' into various family structures because it might suit them, or it might happen that for a generation they slip away, and then the children decide they do want to come back and re-join in some way. Keeping structures as flexible as possible is one way to achieve longevity within family businesses and family structures. [Participant 1]

It also helps avoid the sense of financial entrapment when there is no financial independence at the individual branch level.

…we want to retain that main core and making sure that it's generating enough money and growing for future generations. That's the legacy side, and we see ourselves as guardians of the wealth created by our grandparents. Even though they've passed away, we

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[26] Ramírez-Pasillas, M., & Nordqvist, M. (2021). Because Family Cares: Building Engagement for Family Entrepreneurship Through Sustainability. *Family Entrepreneurship: Insights from Leading Experts on Successful Multi-Generational Entrepreneurial Families*, p. 315.

[27] Hughes Jr, J. E., Massenzio, S. E., & Whitaker, K. (2018). Complete Family Wealth. John Wiley & Sons, p. 131.

[28] McAdam, M., & Alrubaishi, D. (2021). The Family Business University: How to Live, Create and Tell Your Family Business Story. *Family Entrepreneurship: Insights from Leading Experts on Successful Multi-Generational Entrepreneurial Families*, p. 243.

still live by that philosophy that it's their money, it's not ours. But at the same time, through distributions of the wealth, we'll provide each generation with the ability to create their own wealth in a step-by-step process. [Participant 20]

By introducing flexibility, FEs can overcome potentially divisive issues such as differences in risk appetite, passions and pursuits …

You may want to make certain investments or initiatives regarding utilising some of the capital within the group. But some family members simply don't have the same desires to put money into those types of things. [Participant 5]

Having flexibility in the extent to which FE wealth is kept together vs. distributed to heirs can increase, rather than dilute, the multiplier effect of the wealth of the FE. For example, drawing on the above quote, introducing flexibility may release some family members to use FE wealth to invest in and grow other businesses.

Conclusion

In conclusion, by developing a consensus regarding the family's wealth legacy orientation, and consequently, what wealth will be kept together in the FE vs. distributed to heirs, the FO can play an important role in helping develop and deploy that wealth for on-going impact…

We do some things separately, but we do some things together. The family farm is a real focal point for all of us - it brings the three generations all together into a central focal point, and we sort of all take pride in working the family farm together…We just bought more land there for Dad, and so the farm has sort of expanded…It's also where my parents live, so it's great for keeping the family together…We all see them as being great role models and very hard-working entrepreneurial family leaders. I think we'll keep the family farm together as a lasting legacy of what our parents have created. We'll all have the benefit of using the farm for the rising generation. I think it'll keep us together and I think we will do business things together. We'll certainly manage the farm together and future investments I think we'll do some together, as well. So, I think that's good. I'm optimistic that we'll be able to continue working together… It helps the family stay together and you get the benefit of owning those great assets into the future. [Participant 11]

8. Implications for the Financial Advisory sector and policy-makers

This research report identifies six challenges that limit the ability of the FO model to assist FEs in managing, deploying, growing, renewing and transferring their wealth more effectively, and the broader impact on the economy that this can have.

Below are recommendations of possible courses of action that advisors and policy-makers can take to address these challenges.

For the financial advisory sector

Addressing Challenge #1 - Self-advised wealth management

Advisors can play an essential role in encouraging and assisting FEs to professionalise how wealth is conceptualised (holistically – both economic and socioemotional), managed and deployed.

Through encouraging such an approach, advisors can assist FE clients in moving towards an investment risk profile that reflects their risk appetite and long-term financial needs.

Addressing Challenge #3 – the philanthropy paradox.

Based on research on the associated impact, FEs should be encouraged to promote their philanthropic endeavours because of the positive effect on the FE and the contribution to society.

Philanthropy can be one helpful way to develop a unified family enterprise wealth legacy orientation.

The growing focus on sustainability globally presents opportunities to develop a legacy orientation around creating new ventures with a sustainability focus (entrepreneurial and societal legacies). It also provides opportunities for engaging and developing the rising generation of the FE and educate them about purpose, shared values, and principles that stretch beyond the traditional financial goals of the business.

Addressing Challenge #4 – transitioning from a BFO

FE advisors can play an essential role in assisting them when transitioning to a more appropriate FO model is required. This includes:

- Educating family members of the concept of a FO and the advantages of transitioning to an alternative model such as a VFO, SFO or using an MFO provider;
- Be able to guide FEs to selecting the most appropriate FO model based on the size and complexity of their FE wealth; and
- High level of risk exposure stemming from having the family wealth tied up in a business entity (undiversified risk) and the negative effect this has on innovation and entrepreneurship within the family's decision-making[29].

Addressing Challenges #5 & 6 – Developing a family wealth legacy orientation and building in flexibility to accommodate the different needs and purpose of family members

Despite the importance of doing so, many FEs struggle to reach consensus regarding the wealth legacy orientation among the family. They may not know how to initiate conversations about this or are fearful about doing so because of the associated family tensions that may result.

[29] Becerra, M., Cruz, C., & Graves, C. 2020. Innovation in Family Firms: The Relative Effects of Wealth Concentration Versus Family-Centred Goals. Family Business Review, 33(4): 372-392.

Trusted FE advisors are in a prime position to assist FEs in:

- Initiating the dialogue;
- Encouraging broad engagement of the family beyond that of the patriarch or matriarch;
- Developing a process for guiding the family in discussions and resolution regarding a unifying legacy for their wealth;
- Accommodating the needs of individual family members or branches of the family to address their specific needs and/or interests; and
- With the assistance of others with the requisite expertise, philanthropy and/or storytelling and narratives about the family history encourage an entrepreneurial legacy and social impact.

For policy-makers

Addressing Challenge #3 – the philanthropy paradox.

Based on recent research in the UK[30], there are benefits in communicating to society what philanthropic donations achieve, those who make the donations, and issues surrounding the nature and legitimacy of legal vehicles commonly used in philanthropic giving.

State and territory governments can play an important role in educating the general public about the purpose of Private Ancillary Funds (PAFs), the laws they are governed by, and the important role they play in raising much needed funds for philanthropic causes and charities. This could be undertaken in conjunction with recipients of donations such as charities.

State and territory governments can also assist by funding the development of a *FE Impact Index* - a holistic metric that can measure the impact of a FE on society through its business, investment, and philanthropic activities. Such an initiative provides a way of FEs to assess their impact and consider ways in which this can be enhanced for the benefit of society.

Addressing Challenge #2 – perceived lack of private equity ecosystem catering to the SME market

In one sense, regardless of whether there is a private equity ecosystem catering to the SME market, insights from FE leaders suggest in the least, that there is the perception of one. Part of the challenge of developing the private equity ecosystem relates to the value (size) of the deals vs. the cost of due diligence.

State and territory governments can play an important role in mapping the private equity ecosystem around the SME market to raise awareness of and encourage interaction between FOs and SME owners looking for capital to grow or exit. While some private equity firms are catering to the SME market[31], and the mapping of this ecosystem may raise awareness, additional research may be required to ascertain how this ecosystem can be further developed for the benefit of FOs, SME owners, and the economy through growth and employment.

State and territory governments can also play an active role by partnering with FOs to fund priority investment projects. As one FE leader suggested…

[the government can play a role] by incentivising family offices to get involved in priority industries or growth industries within the State…It would be pretty attractive to family offices if there were

[30] Prism – The Gift Fund (2020) *The Philanthropy Paradox - Public Attitudes and Future Prospects For Planned Giving*. Viewed 1st August, 2021, https://prismthegiftfund.co.uk/the-prism-thought-paper/

[31] See for example, Enable Funding https://au.linkedin.com/company/assob

mechanisms by which private money could invest alongside government investment whether they be infrastructure-related or other development opportunities...Ultimately, the government can mobilise more capital into the economy by finding ways to incentivise these family offices to get involved with their particular priorities.

9. Methodology

This report was researched and written by Associate Professor Chris Graves from the University of Adelaide Business School's FBERG. Special thanks to Dr. Jill Thomas, Brad Simmons, Elizabeth Goldfinch, Tracy Conlan, Brooke Tinker-Casson for the assistance given in undertaking Phase 2 of this research project.

Information provided in this research report was derived from insights gained from interviews of FE leaders. Specifically, a qualitative analysis of the semi-structured interviews of 27 FE leaders from Australia was conducted. These questions included:

1. Outline the nature and activities of your family enterprise;
2. Describe your family's approach to managing the wealth of your family enterprise and the family office type you use;
3. What matters most to your family concerning the wealth of the family enterprise?
4. What impact has the wealth of your family enterprise had on your family and society more broadly? What role has your family office played in influencing this impact?
5. What matters most to your family enterprise when establishing and using a Family Office?
6. Exploring essential aspects of wealth transfers (family communication and decision-making, how a shared purpose is developed, reconciling diverging interests, preparation of the rising generation).
7. What's next for your family enterprise and your family office? What steps/actions need to occur to achieve those goals?

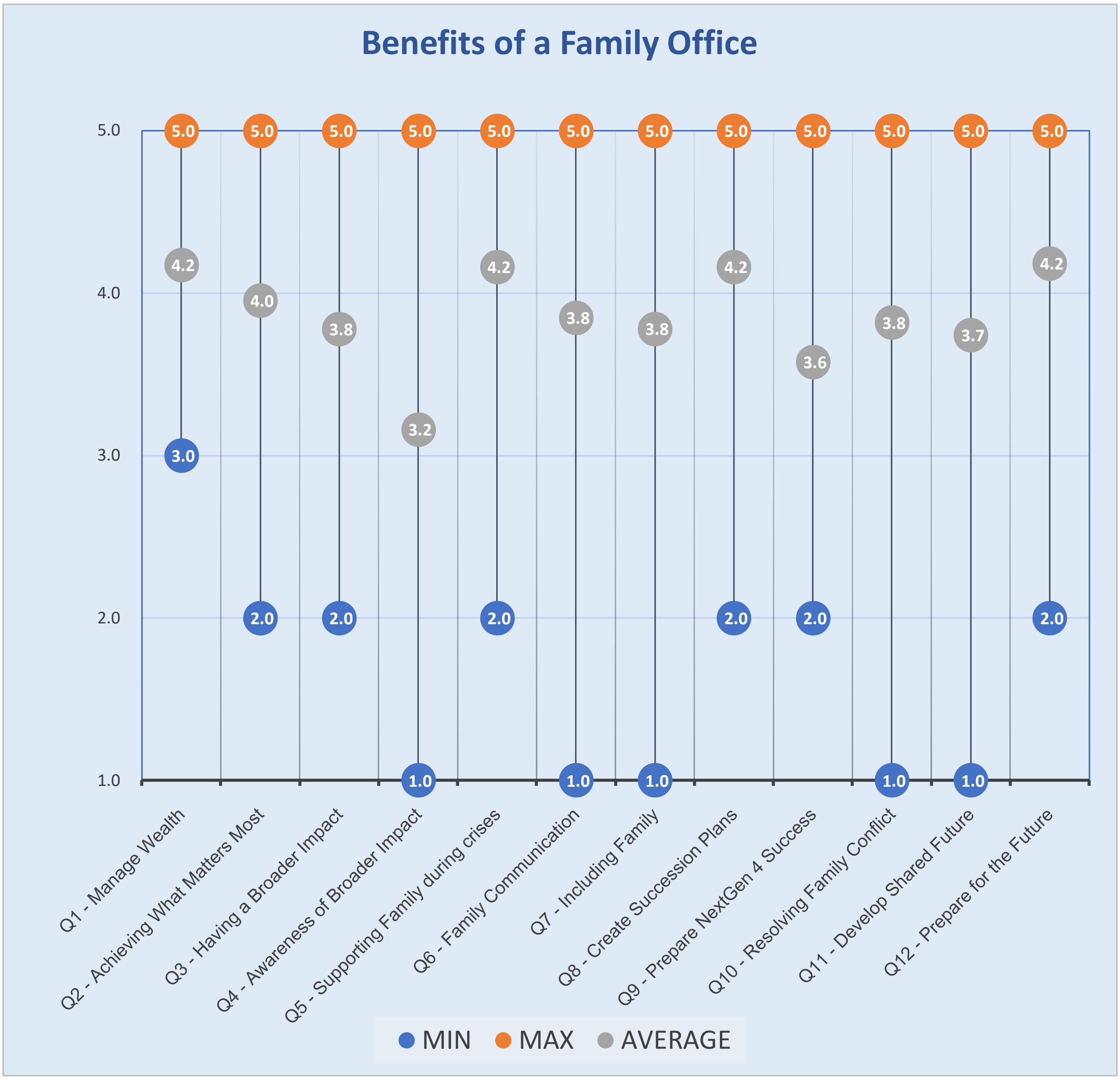
Interviews were transcribed and analysed using NVivo software. This process identified several themes which were grouped according to the broad research questions that were the focus of this study.

To obtain an overall perspective of the benefits of having a FO, FE leaders were also surveyed to rate their FO using the following 12 Likert-style questions, using a scale ranging from 1 (Very Poor) to 5 (Excellent).

1. How would you rate the structure and operations of your family office in helping you manage the family's wealth?
2. How would you rate the contribution of your family office in helping you achieve what matters most to you and your family?
3. How would you rate your family office's contribution in helping you impact the economy / broader community/society / environment?
4. How aware are the family of the broader impact they are having?
5. How would you rate the assistance provided by your family office in helping you deal with issues or challenges that the family faced?
6. How would you rate your family office in helping your family to communicate better with each other?
7. How would you rate your family office in helping to include all members in discussions and decisions in the way they would like to be included?
8. How would you rate your family office in helping you to successfully create succession plans?
9. How would you rate your family office in helping you to prepare subsequent generations for success?
10. How would you rate your family office in helping you to resolve the conflict between family members?
11. How would you rate your family office in helping you to develop a shared vision for the future amongst family members?

12. How would you rate your family office in helping you to successfully prepare for the future?

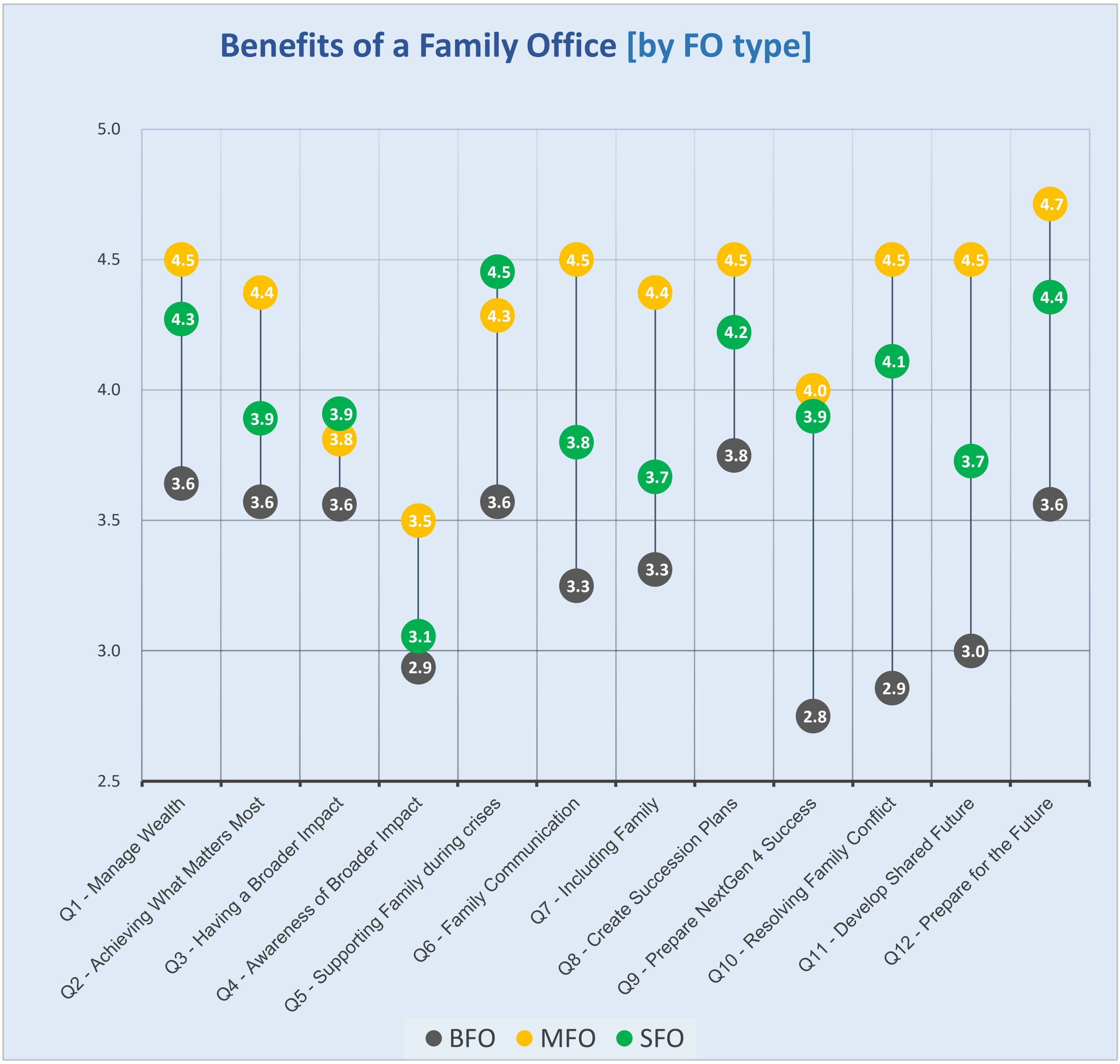
Appendix 1: Survey results of benefits of having a Family Office



NOTE:

- Response options to the survey questions ranged from 1 (very poor) to 5 (excellent)
- MIN = minimum score given by a FE leader
- MAX = maximum score given by a FE leader
- AVERAGE = average score given by all FE leaders that submitted survey responses

Appendix 2: Survey results by Family Office type



NOTE:

- **BFO = Business Family Office** where families introduce a degree of separation between the family's business entity and their wealth management. In practice, this approach is embedded within the family's primary business, where an employee (e.g. their CFO) is entrusted with managing the family's wealth outside the business.
- **SFO = Single-Family Office** establishes and operates a legal entity separately from its operating businesses. The Single-Family Office may have a family or non-family CEO and employ staff and utilise outside expertise. The Single-Family Office is solely devoted to providing Family Office services to a single-family.
- **MFO = Multi-Family Office** is similar to an SFO except that it offers a broader range of Family Office services to several unrelated family enterprises (a closed Multi FO). Some MFOs are owned by third parties and/or families who provide a wide range of tailored Family Office services to family enterprises of different sizes (a commercial Multi FO).

Appendix 3: Family legacy orientation in the Family Office