

## Sustaining Family Wealth: The Impact of the Family Office on the Family Enterprise

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### **Abstract:**

While no one is sure of the precise origins of the family office, many experts agree that the first family offices resulted from large, European land-owning families who had sold their property and liquidated their assets (Hamilton 1997; Rankin 2004; Avery 2004). Avery indicates that the European family offices were embedded in the estate offices of French, British, and German nobility in the nineteenth century, and possibly earlier (Avery 2004). Even though the family office has been in existence in some form for at least two centuries, there is little academic research on the topic. The results of in-depth research have the potential to significantly impact both family businesses and family offices.

**Keywords:** family office | family business | wealth | entrepreneurship

### **Chapter:**

#### **17.1 Introduction**

While no one is sure of the precise origins of the family office, many experts agree that the first family offices resulted from large, European land-owning families who had sold their property and liquidated their assets (Hamilton 1997; Rankin 2004; Avery 2004). Avery indicates that the European family offices were embedded in the estate offices of French, British, and German nobility in the nineteenth century, and possibly earlier (Avery 2004). Even though the family office has been in existence in some form for at least two centuries, there is little academic research on the topic. The results of in-depth research have the potential to significantly impact both family businesses and family offices.

Even though there is no universally accepted definition of a “family office,” the concept has been anecdotally identified by some organizations and practitioners within the wealth management industry who consult to or work for family offices (Hauser 2001; Habbershon & Pistrui 2002; Gray 2004; Rankin 2004; Rosplock 2007a; Jaffe and Lane 2004; Family Office Exchange (FOX) 2009; Family Wealth Alliance 2010; GenSpring Family Offices 2010). There is a significant opportunity for deeper exploration and understanding of the family office and why

some families choose to start an office, join an existing multifamily office, or choose to have their wealth managed by a traditional financial institution. This chapter will help to clarify the role of the family office and its function in sustaining wealth.

To that end, this chapter presents a two-part case study on the Harrison family<sup>1</sup> and discusses the issues, opportunities, and challenges a family can face as its transitions from a family-owning business to a family enterprise and integrates Entrepreneurial Orientation (EO) and Sustainable Family Business Theory (SFBT) to better define the role of the family office in managing the family's wealth and business affairs. In reflection to Part I of the case study, we discuss the background, purpose, and definitions of the family office and provide an overview of the typical services provided by a family office. We then provide an overview of some of the key literature from the wealth management industry and the context of family wealth as it relates to wealth transfer and sustaining a family's wealth. We also discuss the looming challenges of actually studying the family office phenomenon due to privacy, accessibility, anonymity, and limited population.

Part II of the case study takes us 3 years into the future of the Harrison family. We analyze the issues that have resulted as some of them chose to join a multifamily office while others made a decision to start a single-family office. Following Part II, we discuss opportunities for further research in family wealth and specifically how families are approaching collective wealth management. Tapping into insights gleaned from a recent international study that looked at the family business and the family office, we highlight the need and opportunity to conduct research on the family office and present theories that might be further explored in relation to the family office.

## **17.2 Harrison Family Case Study: Part I**

The Harrison family ranch dates back five generations to when Bob and Mary Harrison migrated to the United States and claimed a large tract of land in the Midwest in the 1890s. The Harrison Cattle Ranch was established in 1901 and has been handed down from generation to generation. In 1955, the family authored a mission statement and created a code of family values that still serve as operating principles of today's ranch, that now encompasses 175,000 acres and has over 25,000 head of cattle. Family rituals are a significant part of the family culture and heritage, and the family has created a strong sense of community that extends beyond the usual confines of a business. Just before the annual shareholders meeting, a family rodeo is held. Family barbeques are a regular occurrence, and each summer, the entire Harrison family goes on a retreat to the family compound in northern Minnesota.

The family has always disseminated a generous biannual dividend to all of its shareholders. Unfortunately, however, the dividends have declined over the past decade as in-fighting and management disagreements have put two branches of the third-generation Harrison clan at odds. In 1985, three Harrison cousins disagreed with the decision of their cousin, Bob Harrison III, president and CEO of Harrison Holdings from 1967 to 1990, to sell off the ranch's calving operation. This operation was a major profit center for the cattle business, and as a result of the

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<sup>1</sup> The Harrison Case is based in part on a real family; however names, places, and certain occurrences in the case have been fictionalized to protect the privacy of the family.

sale, the cattle operation's performance suffered for several years. This business disagreement also resulted in a schism in the family. From 1990 to 2008, two families – Bob Harrison III's family and his sister, Jennifer Harrison Reed's family – were not invited to participate in the family meetings and had to instead vote by proxy. Although the Harrison clan had intended on keeping the family enterprise intact in perpetuity, the rivaling branches continued to grow apart. After Bob Harrison III's death, his wife Jessica, his daughter Henrietta, and his sister, Jennifer, were able to mend the damaged relationship with the rest of the family. As a result, John Peter Reed (Jennifer's son) and James Cobun (Jessica's son-in-law) have both been welcomed to work in the family business.

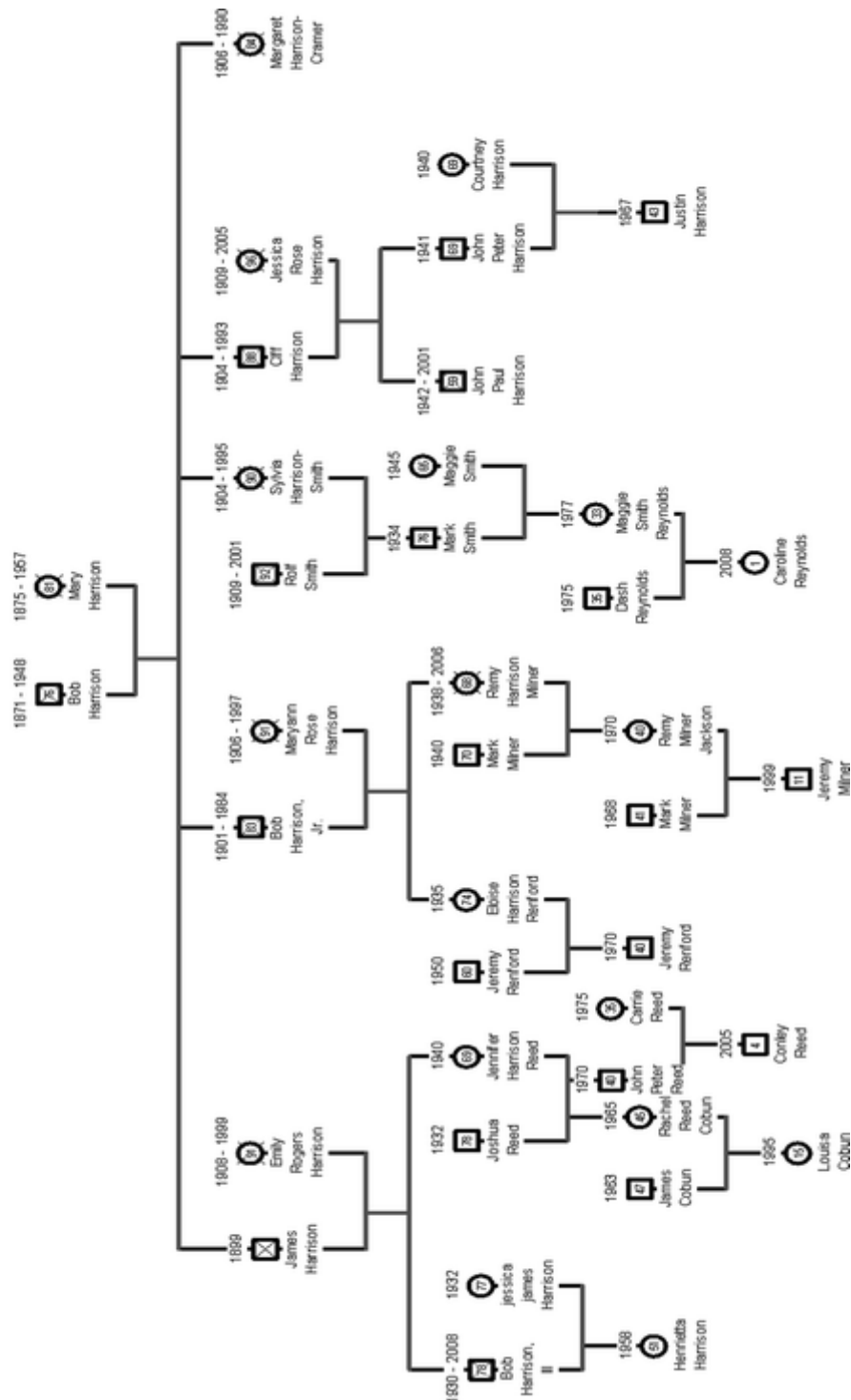
In addition to Jennifer's son John and son-in-law James, Dash Reynolds, son-in-law of Mark Smith, also works in the family business. However, none of the three have been groomed to assume the CEO position. John is a CPA and CFP who works directly for the CFO of Harrison Holdings. James runs two of the family's top-producing agri-businesses, subsidiaries of Harrison Holdings. Dash is responsible for the Harrison Ranch and the cattle operation; in this role, he manages 30 cowboys and 20 ranch hands. While all three men exhibit leadership skills, none have been groomed to step in if and when the current nonfamily CEO Jim Bryan retires.

The family has made a decision that, after 100 years of ranching, they will divest 100,000 acres of the cattle ranch and sell 50% of the herd in order to build a fully self-sustained green senior living and retirement community. The family has a strong sense of stewardship for the land, and they want to make sure that the pristine beauty remains intact. They have received an offer from a green real estate developer who has secured financing and will only develop 17,000 acres, leaving the remainder for green space and pasture. In total, the proceeds from the sale will net the Harrison family \$675 million – quite a return on Bob and Mary's original investment of \$5,000.

The family holds a number of shared assets outside the business holdings that have particularly high sentimental value including the family compound in northern Minnesota. It is in dire need of renovation and updates. The family also owns a horse farm out west, where several of the families spend their summer vacations. As a result of the added liquidity they will soon have, many in the family are debating adding a private landing strip at the farm. Several of the families have interests in fractional jet ownership and feel the convenience of a dedicated landing strip would dramatically increase accessibility to the property. Some family members, however, feel the air strip is excessive and more of a luxury than a necessity.

The family will receive an initial lump sum of \$300 million that will be distributed to each family unit based on percentage of ownership with the remainder will be paid out over 5 years. An additional \$50 million will be used to fund a Harrison Family Foundation. The family has a number of different charitable interests, and it will be critical that the family solidify the mission of the foundation. The family is both astonished and excited by the prospects this liquidity event offers. Although they have always lived comfortably, they have never had the level of liquidity that they will soon experience. Understandably, the family is anxious and unsure of how they should proceed with the management and investment of the individual shares.

Harrison Family Tree



For the first time since the death of Bob Harrison III, all members of the family will be in attendance at the family meeting. It will be the ideal opportunity to define the future of the Harrison Family, and to learn the intentions of the individual family members (Fig. 17.1).

### **17.3 Introduction to the Family Office**

The phenomenon of many wealthy individuals and families opting to start or join a family office as opposed to investing with traditional investment institution has become an increasingly common occurrence (Lowenhaupt 2008). The family office has also become an option for affluent but lower threshold wealth level families through commercial family offices, multifamily offices, and/or virtual family offices.

While we have already discussed the lack of formal research on the origin and history of family offices, this portion of the chapter brings together a body of knowledge of industry publications, research, and scholarly literature to help understand the background, purpose, and definition of the family office and make the case for further research on the family office.

#### **17.3.1 Purpose and Definition of the Family Office**

What is the purpose and role of the family office? In a nutshell, it is to manage and oversee the wealth management affairs of highly affluent individuals and their families related to such issues as tax, wealth transfer, fiduciary oversight, investment management, governance, estate planning, risk management, compliance, communication, financial education, among other issues. A family office is generally defined as an organization that advises wealthy individuals and/or families on a diverse range of financial, estate, tax, accounting, and personal family needs (Bowen 2004). FOX (2009) defines a family office as “a unique family business that is created to provide tailored wealth management solutions in an integrated fashion while promoting and preserving the identity and values of the family” (p. 6). Similarly, Grace (2000) asserted that the family office “has a deep understanding of the planning, generational and tax issues so important to wealthy investors” (p. 54). We define the family office as the strategic integrator and coordinator of all the wealth affairs of the family. This truly makes the family office different from other financial institutions because it is uniquely positioned to execute long-term strategic planning. The coordination, organization, and strategic planning of the collective wealth for a family over the long term and, for many, in concert with their family enterprise and/or the closely held business, are the primary responsibility of the family office. There are estimated to be from 2,500 to 3,000 family offices in the United States (FOX 2009; Hauser 2001; Shapiro 2002; Avery 2004), and an estimated 4,000–6,000+ family offices worldwide (Hauser 2009a; Rankin 2004; FOX 2009). Additionally, FOX estimates that as many as 6,000 or more informal family offices exist in the United States, Europe, and Asia in privately controlled businesses, many of which are family-owned and operated firms (2009). Family wealth advisors recommend a minimum asset base of \$200–\$300 million to establish a single-family office (Rosplock 2007a).

#### **17.3.2 Literature Review of the Family Office**

Very little scholarly research exists on the family office; however, professional organizations, financial institutions, and family offices have generated a preponderance of information and research on the family office (Family Wealth Alliance 2010; FOX 2009; GenSpring Family Offices 2010; Institute for Private Investors [IPI] 2010; Campden 2008a, b, 2009a, b, c; Spectrem Group 2001a, b, c, d, e). The pursuit of research by these entities is meant to help affluent families and family offices better understand the ever-changing landscape of family offices.

Specifically, the Family Wealth Alliance conducts an annual multifamily office study that explores the performance, growth, and challenges of these entities. In 2009, the organization conducted their inaugural study on the single-family office. FOX and the IPI, both private, professional organizations that provide education, investor information, and knowledge exchange for the affluent, have conducted research into investment performance, employee compensation, risk management, governance practices, and philanthropy, among a number of other topics, related to the functioning of the family office (FOX 2009; IPI 2010).

In 2009, Campden Research, a division of Campden Wealth, conducted a study exploring the challenges and evolution of the family office (2009a); they also conducted a separate study, sponsored by Merrill Lynch that focused on single-family offices in Europe (2008a, 2009c). Campden also sponsored a study that analyzed risk and how to protect the family fortune (2009d). And, in conjunction with Wilmington Trust, Campden conducted a study on women and wealth (2009b).

GenSpring Family Offices, a multifamily office, conducted research on the attitudes, behaviors, practices, and interests of affluent men and women, many of whom have a family office or are clients of a multifamily office (Rosplock 2007b, 2008, 2009a, 2010). As well, GenSpring Family Offices compiled information from many recognized leaders in the field to create a guide that highlights the contributions to the thought leadership of family wealth (Rosplock 2009b). In 2009, GenSpring Family Offices, together with the Family Firm Institute, the University of North Carolina at Greensboro, and IESE Business School of the University of Navarra in Spain, sponsored an international pilot study exploring the relationship of the family business to the family office (Rosplock et al. 2010). Engaging 52 family members from prominent family enterprises, the researchers learned vital preliminary information on the role of governance, succession planning, and entrepreneurial spirit and characteristics of the business that influence the family office.

In contrast to the research of professional organizations, scholars and academicians have more keenly researched wealth in terms of family wealth and transgenerational wealth. Although wealth is most often viewed as physical or financial, some researchers and experts have expanded the definition to more broadly include the nonfinancial aspects of wealth. The concept of SFBT (Stafford et al. 1999) integrates the family, business, and community to better understand the role of the family in the family business enterprise and could more broadly be applied to the family office. The theory may be more applicable than most in the family business field because it focuses on sustainability rather than purely revenue. Much like the case study that utilizes SFBT to explain the Kozlovsky Dairy Equipment, Inc. story (see Chap. 14), the Harrison Family case can also be posited in SFBT for theoretical explanation.

### 17.3.3 Context of Family Wealth

In more recent literature, academicians, experts, and researchers have identified a more progressive concept of wealth, namely, that of “family wealth” (Collier 2002; Hughes 2004; Jaffe and Lane 2004). Comprising three forms of capital, Hughes defines a family’s wealth as consisting “primarily of its human capital (defined as all individuals who make up the family) and its intellectual capital (defined as everything that each individual family member knows), and secondarily of its financial capital” (p. xv). Collier, on the other hand, defined family wealth as having four components: human capital, intellectual capital, social capital, and financial capital. Collier noted:

*Human capital* refers to who individual family members are, and what they are called to do; *intellectual capital* refers to how family members learn, communicate, and make joint decisions; *social capital* denotes how family members engage with society at large; and *financial capital* stands for the property of the family (p. 6).

Although Collier (2002) and Hughes (2004) varied slightly in how they defined family wealth, both researchers emphasized that wealth is not simply material. Rather, family wealth considers the broader aspects of wealth as it relates to the individual (human and intellectual) and as it relates to community and society (social). This derivation in the concept of wealth has been influenced by intergenerational wealth transfer and the rapid global increase in assets being transferred from one generation to the next.

### 17.3.4 Impact of Wealth Transfer

Family wealth has a deep impact on various generations; thus, the role that wealth transfer plays in sustaining wealth across generations is key. Havens and Schervish (1999) estimated that approximately US \$41 trillion to \$136 trillion will pass from generation to generation in the time span between 1998 and 2052. This figure is staggering, considering that 2.8 billion of the world’s 6 billion people subsist on less than US \$2 per day (Synopsis of the World Development Reports 2004). Despite the recent downturn in the economy, 70% of baby boomers have reached the age of retirement. Although some are delaying retirement, a large number of them are making wealth transfer preparations, which will initiate one of the largest wealth transfers in known history (WWR 2004). Researchers have found that men and women want to distribute their wealth as follows: approximately 60% to children, grandchildren, and stepchildren; 14% to siblings; 12% to charities; 7% to taxes; and 7% to other individuals or entities (Rosplock 2007b, 2008, 2009b). An earlier study (Havens and Schervish 1999) found that affluent families expect to divide their wealth in other ways: 46% to heirs, 17% to charities, and 37% to taxes. However, they would prefer that their assets be distributed as 65% to heirs, 26% to charities, and no more than 9% going to taxes (Schervish and Havens 2001). These differentials in expected as opposed to desired wealth transfer reiterate the strong family instinct to want to provide greater financial means for the next generation.

The desire to pass wealth to the next generation correlates to Habbershon and Pistrui’s (2002) discussion of the concept of “transgenerational wealth – a continuous stream of wealth that spans

generations [that] requires a family ownership group to achieve at least market-based returns on their assets over generations” (p. 223). In 2004, only 50 names from 1982 still remained on the Forbes 400, indicating that the likelihood of sustaining wealth from generation to generation is a mere 13% (Lagomasino 2004). Habbershon and Pistrui (2002) propose that, to properly study the concept of transgenerational wealth creation in relation to the family enterprise, researchers should study the family as the unit of analysis rather than the business. Habbershon and Pistrui purport that when owners who are principals and managers are acting as agents execute their role, wealth is created. They also go on to posit that, when the family ownership group assumes a collective “family-as-investor” posture, performance is enhanced over the long term. Further, they hypothesize that the family ownership group who employs entrepreneurial strategies will perform better over the long term. The combination of entrepreneurial strategies coupled with an investor mindset will help families perpetuate wealth down the generations, both of which are also impacted by the “dynamism in the market” (Habbershon and Pistrui 2002, p. 234). The propositions set forth by Habbershon and Pistrui emphasize the shift from a focus directed only on studying the family business as the unit of analysis to understanding the family system and the implications for attitudinal and behavioral changes as it impacts performance, wealth transfer, and the continuity of the family’s wealth.

With this base understanding of the multifaceted aspects of wealth, one can begin to lay the foundation to understand the global landscape of the wealthy. As a result of the complex integration of financial, human, and intellectual capital, a holistic approach to wealth management must be the primary function of the family office. Families are becoming more aware of the investment required in mentoring and education to prepare family members to be enlightened owners so as to sustain wealth across generations (Goldbart et al. 2003a, b, c, 2004; Hausner 1990; Jaffe 2003a, b; Jaffe and Lane 2004).

Of areas of wealth *not* related to investments, inherited wealth and the often-resultant sense of entitlement are more widely studied (Blouin and Gibson 1995; Bronfman 1987; Burka 1985; Frankfort 2003; Freeman 2004; Gallo and Gallo 2002; Grossman 1990; Hausner 1990; Holub 1995; Kristal 1991). Nearly all studies have reached the same conclusion: it is critical to mentor and prepare heirs for the responsibilities of wealth. Mentoring includes preparing beneficiaries and trustees, providing financial and lifestyle education to heirs and family members, and providing education on understanding and interpreting account statements of a company balance sheet. Preparation also comes in the form of communication and knowledge transfer. In a study exploring the knowledge, practices, communication, attitudes, and awareness of women and men regarding their wealth, 65% of the women and 47% of the men indicated that they had talked to their children about their inheritance (Rosplock 2009a). The vast majority of men (90%) and women (95%) indicated that having their children achieve financial independence was very important to them (Rosplock 2009a). Thus, the family office is not only a central point to manage the family’s financial wealth, but also an important construct to aid in the grooming and development of the family’s human and intellectual capital, namely, its next generation of leaders.

## **17.4 Challenges to Studying Family Offices**

There are a number of inherent challenges to studying the family office. First, anonymity, privacy, and secrecy are the hallmarks of these institutions, and open access is virtually not an option. Second, the field has not adequately defined the concept of the family office. As a result, there has been a lack of understanding of what actually constitutes a family office and how families define it (Shapiro 2002). Because families define the office in different ways, they may not consider the private, personal employees who manage their wealth as constituting a family office. Similar to family business identity issues (Chua et al. 1999), a number of families have what researchers would consider a functioning family office, but the family itself does not. Another significant challenge to studying this phenomenon is the relatively small sample size. With only 6,500–7,500 family offices worldwide, and perhaps hundreds more that are family offices, but do not identify as such, the population necessary for larger empirical study is simply not there. Lastly, the wealth management industry has taken notice of the public's interest in the family office; as a result, a number of traditional institutions, wealth advisor boutiques, and asset management firms claim to provide “family office services.” In fact, they are virtually providing the same services they always have, but have repackaged them to appeal to those interested in a family office solution. This type of rhetoric further confuses the layperson and makes it difficult to truly discern what is, and what is not, a family office.

## **17.5 Harrison Family Case Study: Part II**

Three years later, we find that the descendants of James and Emily Harrison decided to join First Watch Family Offices, a multifamily office. The remaining family decided to join together and collectively manage their wealth by establishing Harrison Family Offices – a single-family office.

Part II of the case study updates the reader to the present-day issues, opportunities, and challenges that the two different family groups face.

### **17.5.1 Joining a Multifamily Office: First Watch Family Offices**

For a number of reasons, the descendants of James and Emily Harrison decided to go in a different direction from the broader family and become clients of First Watch Family Offices, a multifamily office. First, they recognized that they had different needs and desires of the family office than what the broader family was able to afford with the start-up of the single-family office. They were also happier with the 0.85% asset management costs of the multifamily office vs. the 1–1.25% operating cost of the single-family office. Further, they were interested in the broader service platform of the multifamily office, including experts on staff in governance, philanthropy, conflict resolution, and lifestyle planning – experts the single-family office would not be able to hire. Family issues played a part in their decision as well. The history of family squabbles drove a desire for privacy in the management of their wealth affairs. They also had concerns about Justin Harrison, the family member chosen to oversee the wealth management affairs of the single-family office. Although Justin was trained as a CFA and is working toward a CFP, he had no real experience managing wealth at the level the family was experiencing at that time.

The descendents of James and Emily Harrison are working on a number of long- and short-term family wealth issues. Jessica Harrison is revising a portion of her estate plan following the death of her husband. She is also looking for advice on ways to establish Grantor Retained Annuity Trusts (GRATs) in order to get additional funds out of her estate and transferred to her daughter Henrietta.

Joshua and Jennifer Reed are taking advantage of First Watch's best practice to encourage open dialogue related to wealth transfer. They want to educate their children and the children's spouses about the wealth transfer planning they have instituted and have scheduled a meeting to do so. James and Rachel Cobun will also be having a meeting with their daughter Louisa, to relay their expectations of her as a "responsible wealth inheritor" and to discuss some of their wealth transfer plans.

For the family as a whole, First Watch is conducting a capital sufficiency analysis, an exercise to analyze the family's current cash flow from holdings and investments over a certain time span to determine if the family will be able to live long-term on their current spending habits. Finally, First Watch is assessing the cost of capital improvements to the Minnesota compound to help determine if the Harrisons and Reeds should consider selling their interests in the properties.

As a First Watch client, the family has identified a number of benefits and some challenges. Many of the family members are attending regional learning events with other First Watch client families. They are able to share and learn with peers about such issues as estate planning reform, lifestyle planning, next-generation education, financial reform implications, wealth transfer mechanisms, and much more. The family has realized that the investment platform of First Watch is more robust – with the increased scale of collective assets of First Watch (\$10 billion), the company has more avenues and opportunities to invest in more specialized funds. First Watch does not sell investment products and is not incentivized by selling, which keeps their advice uncomplicated and transparent. This gives the family peace of mind that the First Watch advisors are on their side when addressing complex wealth objectives and long-term goals.

On the other side of the equation, there are some potential concerns. As the First Watch multifamily office continues to grow, will there still be the high level of personalized service that they have come to appreciate? Will they still have access to their advisors when they need them? What happens if there is a change in leadership or when there is employee turnover?

Despite these concerns, the Harrisons and Reeds are very pleased with the service they are receiving. They are able to draw on a breadth of resources and experts in governance, private equity finance, meeting facilitation, conflict resolution, mentoring and education of the next generation, tax, legal, fiduciary services, and more – options that would likely not be available to them with the single-family office.

#### 17.5.2 Starting a Single-Family Office: Harrison Family Offices

The start-up of Harrison Family Offices was an exciting and daunting challenge for the Renford, Smith, Milner, and John Peter and Courtney Harrison families. Many reasons went into their decision to band together and start the single-family office. First, they felt it was an important

part of their ongoing family legacy to collectively manage their wealth. They appreciated the cohesion and integration of managing the family's collective wealth and the opportunities that economies of scale provided them. For the right to have total oversight, control, and ultimate privacy, they were willing to pay 1–1.25% annually to own and operate a family office. They want to replicate the level of service they have experienced in their family business in their family office.

Harrison Family Offices is busy addressing a number of issues. They are working to establish a family council that will discuss and further refine the mission of the family office. They have hired an outside consultant to aid them with the development of the council. The consultant is highly recommended and will pull together the governing documents, schedule the meetings, and draft an initial charter for the family council.

In addition to establishing the family council, the family office has created an investment advisory committee that will discuss ongoing investment opportunities, establish benchmarks, and review the family portfolios against those benchmarks. The family embarked on a yearlong, in-depth search to identify the key nonfamily experts who would comprise this advisory committee. The committee members are paid handsomely to provide conflict-free advice to the family investment team.

Each family unit within the Harrison Family Offices is addressing specific family wealth issues. The Smith family is revising two of their four investment policies for their Generational Skipping Trusts (GSTs). The John P. Harrison family is conducting further due diligence on the costs and liability associated with building the airstrip on the family ranch. The Renfords are working with their son, Jeremy, to draft a prenuptial agreement, based on his desire to propose to his girlfriend of 3 years.

There are a number of special benefits afforded to the Harrison Family Offices members. The family wants to groom Justin Harrison, a CFA who is working toward his CFP designation, to move into a leadership role in the family office. They have identified and hired two retired single-family office presidents to mentor him. The family has contracted an outside consultant to explore the family's values to help establish the family's philanthropic mission and see the family foundation as an important component of their shared identity and legacy. They relish the strength of the relationships they have built with their advisors and appreciate the total dedication of their staff to the unique needs of the family. Customization is just part of the delivery of all services in the Harrison Family Offices.

Even with the positives that have resulted from owning and operating the single-family office, a number of unforeseen challenges have arisen. The start-up costs have been significant. While the hiring of the various consultants and the investment advisory board were necessary investments to build the infrastructure, they were more costly than initially anticipated. There are concerns of nepotism if Justin Harrison assumes full responsibility over the family office. There are fears of nepotism if Justin Harrison is tracked to take over the family office. There are questions about the economics and long-term viability of the single-family office. Will they earn enough from their investments to grow and offset their operational expenses? How can they innovate and adopt an entrepreneurial mindset to further grow the family wealth?



The opportunity to work together as a family to build the family office has proven to be rewarding, but it has also created the reality that the family has, in essence, created another family enterprise. They are feeling the growing pains that arise when different families need different services – what should the family pay to provide for all family members and what services should they outsource? (Fig. 17.2)

## 17.6 Case Study Discussion and Areas for Future Research

The following sections discuss the major issues evident in the Harrison Family case study and provide areas for future research and discussion.

### 17.6.1 Vision, Mission, and Code of Family Values

One of the key issues of the case study revolves around the family's decision to sell 100,000 acres of the original cattle ranch and 50% of the herd. The mission and code of family values as it was drafted in 1955 reads: "We the descendants of Bob and Mary Harrison will work to uphold the family's core values of hard work, honesty, integrity, environmental stewardship, and the highest ethics to the ongoing operations of the Harrison Family Enterprise. The Mission of the Harrison Family is to continue to grow and evolve the Harrison Family Holdings and to remain united as a family to the benefit of the shareholders in a manner that is commensurate with the family's core values." Is this decision to sell a large portion of the ranch in keeping with the family's core values and mission?

Is the decision of one branch of the family to separate their wealth management affairs in line with the family business values and mission? Some may argue that the mission and code of family values is no longer applicable or important. The question remains if either of the two family groups will incorporate the mission and code of family values into their respective future management strategies, or if it is even possible to do so, given the split. If the mission and values are deemed important enough to be preserved, how will they go about implementing or revising the core principles? There are, by nature, major differences in goals and objectives of the multifamily office compared to the single-family office. The relationship between the family business and the management of the family's wealth is an interesting paradigm that requires further exploration in the field. Additionally, research needs to be conducted concerning the vision and mission of the family enterprise and what role, if any, these play in the family office from one generation to the next.

Alfred Chandler would be most interested in these questions. Chandler is most often credited as the founder of strategy, along with Kenneth Andrews and Igor Ansoff. His 1962 publication, *Strategy and Structure* is considered the seminal publication in the field. Chandler's background as a business historian set him apart from Andrews and Ansoff and made his perspective unique – and applicable to family offices. As a keen observer of business, he saw the realities of the day-to-day challenges faced by businesses; he coupled this knowledge with the complex realities of strategy and its preoccupation with empirical detail. He was known for his rich engagement with the practice of management (Whittington 2008). While Chandler's work focused on the roles and functions of the railroads, he transferred this work into a greater,

overarching perspective, defining strategy as “the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (Chandler 1962, p. 13). In this definition lies the connection of the mission of the family office to the overall mission of the family enterprise. If Chandler were here today, he would be adamant about the importance of a clearly defined vision and mission of the family office tied to the family enterprise. The organizational capabilities would provide the internal dynamic for the continuing growth of the family office (Chandler 1990). Examining Chandler’s strategic theories in relation to the family office is yet another area ripe for research.

#### 17.6.2 Socioemotional Wealth

Does the entire Harrison family still vacation at the ranch out west? Do they still participate in family retreats at the Minnesota compound? It seems that the Harrison family’s socioemotional wealth may be lost. Socioemotional wealth refers to “non-financial aspects of the firm that meet the family’s affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (Gómez-Mejía et al. 2007, p. 107). Socioemotional wealth, if lost, means that there is little intimacy among the family, the status of the family is reduced, and in this case, may be eliminated altogether. Does the Harrison family still have an identity as a result of the partial sale of the ranch? What role, if any, may the Harrison Family Offices provide in redefining the family’s enterprise identity? Does anyone even care anymore? This is a research theory that could be applied to the family office and broaden facets of the family office previously not explored.

#### 17.6.3 Familiness

Familiness and its application to the family office is an area ripe for further research. The concept of “familiness” was originally introduced by Habbershon and Williams (1999) who described it as “the idiosyncratic firm level bundle of resources and capabilities resulting from the systems interactions” (Habbershon et al. 2003, p. 451). In the context of the Harrison case study, familiness refers to the “...resources and capabilities related to family involvement and interactions” (Chrisman et al. 2003, p. 468). For our purposes, distinctive familiness describes a positive, cohesive influence of the family. Does it matter to the current generation? Should it? What are the intentions of the two families and what are the long-term effects on the socioemotional wealth of the family? It is not clear in the case study whether any attempts will be made to preserve the Harrison’s sense of “familiness.” Understanding the nonfinancial implications of wealth is critical to understanding the viability and sustainability of the wealth (Habbershon and Pistrui 2002). A greater understanding of socioemotional wealth and human and intellectual capital on a family’s shared identity, and sense of “familiness” are other areas for deeper exploration by researchers.

#### 17.6.4 Leadership and Succession

The Harrison Family case study reveals an obvious leadership schism among the family members. One branch of the family signs on with the multifamily office, in part, because they are not comfortable with Justin Harrison as the successor family leader of the single-family

office. The other branch of the family, fearing a loss of control, is willing to mentor and groom Justin to take the leadership role. Despite Justin taking the steps to obtain his certification and his willingness to be mentored, there are larger, underlying issues at play – issues concerning trust, governance, control, and leadership succession. Part I of the case study reveals a history of leadership challenges stemming back to the executive search following the unexpected retirement of Bob Harrison III. The case study suggests that single-family offices have larger issues regarding leadership succession than multifamily offices do. Who will be groomed to succeed Justin Harrison? How will subsequent leadership transitions be handled so as to avoid another schism? There is ample opportunity to further understand leadership succession in the context of the family office. Coglisier and Brigham (2004) examine leadership in light of entrepreneurship. While leadership theory is assumed to be a “mature field” (Hunt and Dodge 2000), leadership theories have yet to be applied to the family office and their executives. It is our recommendation that leadership theory be applied to the family office. An important area for further study is how family members who aspire to leadership roles are professionalized, and more specifically, how successors are mentored, trained, and groomed to assume an executive role.

#### 17.6.5 Employment Issues

There are a host of issues that relate to employment, compensation, and career path development in the family office. Single-family offices have unique concerns when hiring, incentivizing, and retaining key employees. In particular, single-family offices typically do not have the ability to provide career paths for employees the way that a larger, scaled organization, such as a multifamily office, does. But, how are employees in a multifamily office incentivized? What role, if any, do equity incentives play? This is a particular area of concern when multifamily offices are providing advice only, and not selling products through which commissions are typically earned.

Just as with the family business, issues of nepotism can arise within the single-family office. This can impact the advancement of nonfamily employees. Thus, the single-family office must be sure to balance opportunities and human resource issues for family and nonfamily employees. Further research on employment, compensation, and career path development is critical to understanding operational efficiencies within the family office. Similarly, understanding employee satisfaction, commitment, and culture may help reveal the possible different levels of satisfaction and commitment of employees in a single-family office vs. a multifamily office. Researchers may want to take this exploration one step further and analyze whether satisfaction and commitment levels differ between family and nonfamily employees in the single-family office. What reward, retention and motivation techniques are the single and multifamily offices using? There is a dearth of literature on human resource management in relation to the family office; this area in particular is rich for research exploration in terms of the family office as a small/medium enterprise.

#### 17.6.6 Governance

Governance at the corporate level is critical to the success of businesses. Understanding the optimal governance process for single-family offices may help lead to maximum collective

wealth management. Does the family want to spend everything in a single generation or do they want to sustain the wealth over multiple generations? The governance structure and process will vary significantly when a single generation is involved vs. multiple generations (Hauser 2009b). Part II of the Harrison case study touches on the different approaches that each branch of the family is taking to address the decision-making required for the wealth. The Harrison Family Offices, by the establishment of a family council, a shared philanthropic mission statement, and the identification of advisors for their investment committee, is approaching wealth management from a more collective approach. Berent and Uhlander (2011) examine governance in terms of family teams that could be applied to the family office, if it is viewed as a team. They also identify many of the issues identified in the Harrison Family case study in terms of what happens when a “team” gets divided and what issues evolve as a result.

In 2004, Jaffe and Lane identified four stages in the evolution of the family business and discuss issues pertaining to all stages, and especially the last stage – the family dynasty – the stage the Harrison family is currently in. Jaffe and Lane (2004) discussed the formation of a family office, the participation styles of the family members, and how those differing styles can impact the success of the transition from one stage to the next. Which decision-making processes work best in single-family offices and which work best in multifamily offices? Do they differ or are they similar? The entire wealth management strategy of the family office can have a major impact on the entire lifestyle of its members. A long-term view vs. a short-term view will clearly affect decision-making processes, governance, and overall strategies for investment policy and formation, wealth performance, asset allocation, risk taking, estate planning, wealth transfer, and tax consequences. How will these factors be managed over time and by consecutive generations? How will risk profiles or risk parameters change? Will the intentions of the family members change? Longitudinal studies that examine these issues are desperately needed.

#### 17.6.7 Corporate Entrepreneurship

Understanding the operational efficiencies and viability of the family office is important to the field and sustaining the family wealth. Corporate entrepreneurship theory that examines survival, profitability, and growth (Rogoff and Heck 2003; Salvato 2004) in terms of the family office has yet to be explored. This theory could be applied to the family office in the same vein that corporate entrepreneurship refers to the entrepreneurial activities within organizations that change their competitive profile in one way or another, such as investment mix, wealth options, partners, or adding new product or service divisions (Zahra 1995, 1996). Kellermans and Eddleston (2006) identified corporate entrepreneurship as an under-researched theory to explain family business. The same holds true in regard to the family office. The Harrison Family case study discusses a cost issue between the multifamily office (0.85%) and the single-family office (1–1.25%). While one branch of the family did not feel that 1–1.25% was acceptable for the single-family office, other branches did. For this family, the question of what is reasonable now vs. what is reasonable over time results in two different answers. What impact does inflation, estate tax, and macroeconomics play on the viability of the business model in regard to corporate entrepreneurship? In the case of the Harrison Family Offices, does the family have adequate wealth over time to maintain the single-family office? What is the optimal diversification of liquid vs. illiquid wealth?

### 17.6.8 Entrepreneurial Orientation

In terms of sustaining the family over time, what role does entrepreneurship play in growing the family's wealth? Does the family need to create new divisions, make acquisitions, and start new branches of their initial family business to sustain over time? Entrepreneurial Orientation (EO) has been applied in numerous studies to family business (Miller 1983; Miller and Friesen 1983; Lumpkin and Dess 1995, 1996; Covin and Slevin 1991; among others). However, the construct has yet to be applied to the family office. There is also a question of which is the best measurement to use in terms of the construct differences (Covin and Wales 2011) to measure EO in the family office. A 2010 study looked to identify the role of EO in sustaining the family's wealth through generations and assess the importance of EO in the family's investment and ventures (Welsh et al. 2010). While Jaffe and Lane (2004) identify the entrepreneurial stage as the second of four stages in the family business that has a beginning and an end point, we have found that, unless the family business as well as the family office is entrepreneurial in terms of wealth creation, starting new divisions, and other approaches over time, neither the family business nor the family office will survive. In other words, the family office must stay entrepreneurial. What processes are involved in maintaining the entrepreneurial spirit over time and how is this spirit passed from one generation to the next?

Single-family offices have the added management cost structure that multifamily offices are able to scale and offset to their larger pools of clients (Hauser 2008). How does this affect entrepreneurship? In other words, should researchers be examining the single-family office as another family business in and of itself? Is the Harrison family viewing its newly formed single-family office in this way? Managing the family business with an entrepreneurial orientation toward taking calculated risks, being proactive, and innovative are likely to be key for long-term success and viability.

No study has been published that addresses the question of whether greater wealth is amassed when families invest collectively or individually. From an investment performance standpoint, are those who are investing collectively really outperforming those who are investing individually? What is the added value of investment managers in a single-family office vs. a multifamily office? Just as we each have our own unique DNA, each family office has its own unique profile and investment performance profile. As a result, it is difficult from a research perspective not only to acquire financial data from family offices, but also to analyze and compare the data. Estate planning, legal and compliance constraints add to the challenge, as do differing intentions, time horizons, asset allocation, and performance measures. Clearly, there are opportunities for further research as they relate to the long-term sustainability of the family office.

### 17.6.9 Legacy and Philanthropy

Legacy is an important component of the Harrison's single-family office. In the Harrison case study, the single-family office also manages the family foundation – another important aspect of the family's legacy. While it is true that there are positive tax aspects for the family, the foundation takes time and resources that must be adequately managed to ensure a balance between the costs and benefits. Studies have revealed that philanthropy and the role of a family's

foundation can be important to the family's legacy. Although there is a greater preponderance of research in philanthropy and foundations (National Center for Family Philanthropy 2010; Council of Foundations 2010; University of Indiana, Center on Philanthropy 2010; Center for Wealth and Philanthropy, Boston College 2010), more research is needed to understand the complex nature of the relationship between the role of the family office in aiding in philanthropic endeavors and family foundations. In addition, with the rise of social entrepreneurship interest and research in the last 10 years, the intersection between social entrepreneurship and the family foundation is a ripe area for study.

## 17.7 Conclusion

Despite the recent global economic recession, the tremendous wealth that has been generated in the last several decades has given rise to the family office as a wealth management and sustainability vehicle. With the burgeoning growth of the family office, there is a critical need to further study and understand this phenomenon. Even from its roots, the family office is shrouded in mystery, with very little knowledge of its true origins. Today, the family office continues to evolve in various forms – the single-family office, the multifamily office, the virtual family office, and the commercial family office. As it grows, it becomes a more widespread and visible option for affluent families looking to address wealth needs that extend beyond finances. Family enterprises are, and will likely continue to be, the largest driver of our global economy. How these families sustain and perpetuate their wealth across generations has global ramifications across all economic strata. A recent article in *Forbes* summed it up quite succinctly:

Think of the wealthy as the main engine of the economy: When they buy more, the economy hums. When they cut back, it sputters. The rest of us mainly go along for the ride (Aversa 2010, n.p.).

In the last 3 years, economic indicators have shown that the ultra-affluent have cut back on a majority of their spending. Further, a phone call in June of 2009 by Warren Buffet and Bill and Melinda Gates resulted in 40 ultra-high net-worth signers pledging to donate half of their net worth to charity, either during their lifetime or upon their death (Frank 2010; Loomis 2010). Regardless of whether this is merely a chance for the individuals to decide where their wealth goes rather than allowing the government to make the decision for them, the implications are significant – for the family office, the wealth management industry, and the future of philanthropy as we know it. These factors shine a bright light on the impact of the ultra-wealthy and the need to understand how they manage their wealth through the family office. This is a rich area for study for the practitioner and the researcher and has relevance to everyday life.

Through the presentation of the real-life story of the fictitiously named Harrison family, we have illustrated the complex issues that come into play with the family business and the family office and identified some of the major differences between the multifamily office and the single-family office. We have highlighted the broader areas of research and related facets for study. Underlying all these opportunities, however, is the question of how we get the data. How do we get competing investments companies and financial institutions with differing specialties and markets to share their information? How do we get family offices, that are by design, private, to release their information? And once they do, how do we compare the data? It is not simply a

matter of acquiring the data per se, but coming up with commonly accepted definitions to use when identifying the sample. Neither a multifamily office nor a single-family office is defined in the same way by practitioners in the field, those who have a single-family office, or those who are members of a multifamily office, let alone academia. These barriers have led to lack of research in the area. However, the relevance to everyday life and our futures makes the continued effort to generate study of the family office one that is worthy of attention to scholars and practitioners as the implications to sustaining family wealth are immediate.

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