



When it comes to family

why try to measure the immeasurable?

We are all obsessed with metrics. We can calculate and control that which we can measure. And in the spirit of empiricism, we encounter a profound irony –family offices tend to take care of money, not family. The reason is simple. Money can be dealt with in absolute empirical terms - it is quantitative and exact. So, if you don't want the tail to be wagging the dog, you will need to be sure qualitative factors have been addressed long before the assets are pigeonholed into alpha-bearing channels. Don't be fooled, the fate of finances is intimately connected to the fate of family. Not handled properly, capital assets will not only lose their value to the individual members of the family, they will potentially divide the family and generate animosity in places where appreciation and respect would generate stability and growth. Measure, yes. **But what?**

Let's talk about Family Office

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- In the lifecycle of a successful family business comes the point when Family Leadership faces issues that are getting more and more complex. The business becomes so big and successful that the family needs some centralized place to structure and manage the businesses as well as the financial windfall of the success.

- Handling the leadership transition into the next generation becomes complex and difficult to manage and some structure is needed.

The family turns to their bankers, CPAs and solicitors and asks them for advice about what they should do. Most of these advisors will suggest setting up a family office. Obviously, the advisors shape the family office according to the well-known model. If it works for business family A it must also work for business family B.

Within a year the Financial Family Office is set up, staffed with wealth managers and CPA's and a back office. The assets are

managed, the reporting is organized, the taxes filed on time and the business leaders have professional support for all the issues of the business and peripheral to it.

Banker has made sure that you have the best-practice Asset Management, your CPA makes sure the reporting and tax filing is in order and your solicitor has made sure that the legal and structural risk for the business is being avoided. Each professional has brought the best thinking, but from his professional viewpoint only.

Does this financial family office also answer other issues such as heirs' succession, the complexity of the growing family, the multi-generational issues, legacy, family social and communal branding? And the owner, does he have a plan for the generations to come? Is he ready for the next black swan event in the family (accidents, death, regulatory changes, etc.)?



The Family Office needs to deal with the business of the family, not with the family business.

Many of the issues that your family will face have nothing to do with the business and are often not being addressed by the family office. Why? All the specialists have contributed their professional knowledge, but no one has taken a few steps backwards to see the whole picture and see what your family actually needs. Unfortunately, you will face new

complicated and existential issues in the family, and not in the business, for which the financial family office will not have any answer. When the family office is built with the business in mind, it is just another structure on top of the business, a kind of Holding Company. If the family office is built with the family in mind, it is dealing with the issues of the family and how they will own, run, and identify with the business.

So how do you build a family office? First you need to understand that the family office must be tailor-made for your family. By asking yourself some key questions you will find out what kind of family office your family needs.

What is Wealth?

It is commonly believed that wealth consists solely of the financial wealth, which I call “the Quantitative Assets”:

- Operating businesses and long-term investments
- Liquid assets and financial investments
- Real Estate investments
- Socially responsible investments
- Tangible family assets, collectables, and heirloom

But actually, at the heart of the family wealth portfolio lie the family's values, culture, talent and reputation – the Qualitative Assets, which are:

- Human Capital: Long-term resiliency, growth and development
- Legacy Capital: Shared tradition, values and core purpose (“Family Brand”)
- Family Relationship Capital: Interpersonal connections within the family
- Structural Capital: Governance structures, policies, and practices that promote effective decision-making.
- Social Capital: Commitment to community beyond family

Quantitative assets go Hand in Hand with Qualitative assets.

Now that we have established what is the family wealth, it is clear for all of us that the family office will have to deal with all the Assets, the Quantitative and the Qualitative, so it can facilitate the wealth transition from generation to generation.

Wealth transition

Wealth transition is a process and not an event!

The financial division of the Family Office makes sure that the quantitative wealth is saved and the business continues, but due to the failure to transfer the ownership into the next generation you will have some family members not talking to each other, fighting in courts, harming each other and destroying both financially and emotionally what you have built over your entire life with sweat, bruises and tears.

As a business owner you must ask yourself, is it worthwhile going through all this? Perhaps it would be better to give everything away and have the children start anew?

Being the founder of a business and a wealth creator, you have all the right in the world to do with your wealth what you want – it is for you to decide if you are an owner or a steward:

- If you choose to be an owner, you could spend all the money, let the business go bust (win some, lose some), give it away – you are the boss. You “live the day” and decide for the moment. Your heirs will have to build their own life and career and cannot rely on any inheritance or career in the family business.
- If you choose to be a steward for the generations to come, then your responsibility is to watch over the wealth for the generations to come. Your decisions must be taken to bring prosperity in the 10, 50 or even 100 years to come!

So, as a steward, you need to plan the wealth transition and need to start the process of transition early on.

We all always read and hear about the difficulties families have with the wealth transition. In most families transitions cause problems and disputes and lots of money and time is invested to save the business and/or the family.

Why does Wealth Transition in families often fail? Of course, some of it has to do with bad business decisions or mismanagement. But also, when the business is in perfect shape, the financial assets beating the benchmark consistently, etc. Apparently, wealth transitions still create disputes and fights in families. Here are the main reasons:

- 35% Communication Breakdown
- 30% Poor Heir Preparation
- 20% Ineffective Governance
- 10% Lack of Wealth Mission
- 5% Others

Communication, communication and of course also structure, this is what is missing. The actual tool would be a Family Governance that all family members work-on together and regulate all the issues that will help to transition the family wealth, the quantitative and the qualitative, to the next generations.

Family Governance

For the transition to succeed the family needs to create a Family Governance. That is one of the most important roles the family office plays. I deliberately use the word “create” and not “write”. It is not a 'dry contract'. You actually have to work very hard on the process of creating the governance. All family members participate equally in the process, not only the ones in the business or with a financial/legal formation. All family members are part of the qualitative wealth and therefore have a seat at the table.

Why do many families shy away from starting such a process? It is certainly frightening because in many cases it opens a full Pandora box of old wounds, rivalries, and disputes. But not dealing with those will only make it worse, because those issues will arise at the worst possible moments. That is why this process must be facilitated by an outside person that has no emotions in the process.

The Generative Family

In a study for his book “Borrowed from your Grandchildren: The Evolution of 100-Year Family Enterprises” Dennis Jaffe has defined the generative Family as: “The whole extended family that has created a thriving family enterprise, with the intention of having family involvement across generations, and with continuity of values and family commitment.”

The research found that such Families have six core qualities:

- Shared values and core purpose
- Governance policies and structures to guide development and decisions as family and as business.
- Cross generational engagement and support (actively building closeness, respect, and trust across the generations)
- Long term business resiliency, growth, and development (continually redefining and renewing their ventures)
- Education of rising generation about responsibility, stewardship, and values
- Commitment to community beyond family

As you see, these families communicate about values, building structures, engaging the entire family across the board, re-inventing themselves constantly (the chakra wheel is turning, not standing still), and role-modeling and educating. All these issues are the key to longevity of the business.

These families have concerns regarding:

- The future facing our children
- Raising productive children
- Positive impact on community
- Who are we and who can we become?
- What to do with our wealth?
- Gratitude, responsibility for wealth

As you can also see, in the below graph, families that remain business owners for generations already prepare a family governance in the second Generation (G2) and already a quarter of them have a non-family CEO.

	G2	G3	G4	G5+
Family Governance				
Family Council	63%	71%	85%	100%
Family Constitution	25	43	96	100
Next Generation Education	13	43	75	100
Exit Policy	0	43	85	100
Enterprise Practices				
Independent Board	25	85	96	100
Nonfamily CEO	25	43	25	100

What stands out in this interesting study is that for families to succeed, it is best to address the important work of Family Governance early on and prepare the family for the transition of the business.

Setting up a family office for managing the financial wealth only - is missing that point. The right family office – one that caters to both quantitative and qualitative assets of the family wealth, functions as preventive medicine, therefore can save both the family and the business from failing and falling apart.

I would like to end this article with a quote from my book “Woes of the Rich – Seeing beyond money”:

“...what of families that establish a splendid enterprise but their children, who inherit the joint CEO position, do not succeed in joint management? They find themselves in a profound conflict that reaches the law courts and ends in dissolution of the inheritance and a permanent break between siblings. Family businesses are an extremely complex matter, with the relationship history with the parents dragged into the present and liable to endanger both the family and the business.

Families bring these exorbitant battles upon themselves in an absurd fashion. The battles are not the result of a higher power. Partially financial but mainly moral mistakes drive the families towards fatal hubris, just like in a Greek tragedy.

I am certain that all families carry such loads. People do not always talk about everything, and many secrets emerge only after the death of the involved. But in this context affluent families, where money is one of the main characters, are a bit different than families that are not affluent, because the money often leads to destructive dynamics. And the big elephant in the room, i.e., the money with all its implications – is exactly what is not discussed with the necessary transparency.

The qualitative and emotional factors that lead to the depletion of family capital should not be taken lightly. The usual tendency is to view money and mistaken decisions as the prime risk factors to family capital, but over the generations reality shows again and again that “financially smart” families too often fall into an emotional chasm that has not one drop of economic profit.

Emotions are indeed an expensive affair.”

To ensure your family’s wellbeing as well as the success of your business you are well advised to setup a holistic family office, that caters for the quantitative as well as the qualitative. This way you increase the probability to generate alpha for all!