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The Integrated Family Enterprise:

Family Offices, Businesses, Foundations, and Their Collective Purpose

While a surprisingly large number of public companies still have a family that is involved and owns substantial stock, the vast majority of families in business hold their stock closely. Such family enterprises require strategies that provide adequate returns to ownership while simultaneously addressing executive compensation, profits for reinvestment, and, ultimately, ways to perpetuate legacy across generational transitions and evolving economic and family interests. The model for families investing together can take a variety of different forms, but in every case, the need to manage the delicate, complex dynamics of relationships among family members—in which the personal, the professional, and the strategic are intertwined—is always at play.

A few decades ago, the singular family business was the core institution. Today, the family enterprise can include a constellation of businesses, a family foundation for philanthropic activity, and a family office for wealth management—all organized around a set of principles that bind family across generations and family branches, connecting them to non-family executives and the wider world. Since the early 1980s, CFAR has worked with family concerns of all types across a wide spectrum of industries. We help the parts as well as the whole address succession, governance, leadership, strategy, and conflict in ways that increase the value of the organization and develop strategic capacity while preserving core family values.

The Family Business or Businesses

For families ready to expand from their original enterprise with new ventures, it can be hard to know what strategies and structures best support the multiple interests and economics and also keep the founding values intact.

Five family executives of a fourth-generation family business sold their stock in the operating company to another part of the same family, creating a substantial pool of wealth and freeing up their time. This group wanted to restart together, but was uncertain about where to begin—start or acquire a new business, manage a portfolio of liquid investments, or develop a philanthropic venture?

In this case, CFAR helped the family members identify both what they had in common and how they differed. The five realized that some wanted to focus on creating opportunities for their own children, while others wanted to experience the challenge of starting and succeeding at business based on their own skills rather than standing on the shoulders of prior generations. Some wanted to focus on philanthropy, while the primary interest of one couple was ensuring that their money was well invested and secure. Clarity about which strategy each wanted to pursue—and the skills required for success—led to sharpened ideas about options.

For families in any collective economic enterprise, the challenge is to identify which economic and organizational structures best support the evolution from one to multiple activities, from a single strategy to multiple strategies—including structures for sustaining the "glue" across the whole. How does a family effectively stay together and interact when they are pursuing different interests, while using as their reference the singular structure of the originating business? For families asking these enterprise questions, CFAR helps them develop:

- A clear logic for structuring participation and clarifying the "game plan" for the family enterprise.
- Processes for imagining the timing and sequencing of adding new activities with the potential for shuffling people and roles, along with an economic rationale.
- Ways to enact roles and structures with development, learning, and adaptation as explicit elements of the winning formula.

The Family Office

After the sale of a family business or other significant liquidity event, families often contemplate establishing a family office to support the financial needs for a specific family group (or group of families). The central question is always about what the group wants to support collectively, on a scale that can range from "concierge"-type services to comprehensive money management including investment advice, financial and tax planning, and even family foundation management. Multi-family offices usually start as a dedicated office serving one family, then expand when friends of the family become interested and their involvement can offer purchasing power and economies of scale that benefit all of the families using the services of the office.

A family business had liquidated, and the founder ran a multi-family office that was staffed by his son along with *a number of non-family investment professionals. The time had come to address succession, and the son was the logical next head of the office, but the father had doubts about his son's investment acumen and ability to lead the group, most of whom were significantly more senior than the son in age and experience.*

Rather than making assumptions about the son's ability, CFAR created a structured process to assess the son's talent and aptitude that included specific time for the father and son to work directly together. The process allowed them to assess the fit objectively, and not incidentally improved their relationship along the way (even though, in the end, it became clear that investment management was not the son's forte, and he would be happier and more successful as a board member rather than as an employee, let alone its leader).

Family Philanthropy

Large or small, and divergent in focus, family foundations lead the world of social venture funding, providing vital sustenance for many thousands of grant-giving agencies worldwide. Until the fall of 2008, philanthropic activity had been steadily rising due to the unprecedented growth of private wealth over the past decade, a rise in interest among wealthy families on meaning and impact, and a decline in government intervention around urgent social need. However, when the recent economic crisis hit, foundation endowments suffered a serious blow, many plunging by half over just a few months: they struggled with how to fulfill their missions with greatly constrained resources in the face of growing demand.

As the nation's economy steadies, senior generations of family firms will again benefit from well-designed liquidity events: putting their non-business assets to work often becomes a new focus. Family foundations, though, face many unique management challenges.

- They must make thoughtful decisions in the face of sometimes overwhelming demand, and need the financial acumen and tools to steward their investments and evaluate grant proposals effectively.
- They must communicate clearly among themselves on issues ranging from managing family dynamics, developing effective boards, incorporating non-family members, knowing how and when to involve children, and identifying the next leader, as well as developing their giving agenda.
- They need to exercise creativity and sophisticated business strategies to amplify impact and, increasingly, they demand measurable return on their social investments. They must be able to communicate effectively with donors, collaborators, and their communities.
- With the barriers to setting up a family foundation relatively low, many families inexperienced in the complex management issues particular to running a foundation—or who may imagine a foundation dedicated to doing good works will "cure" differences among family members—can find the organization threatened by internal conflict and impeded in fulfilling its mission.

Family board members from the five philanthropies, sponsored by a single family, assembled for their first-ever joint meeting to discuss their connections, shared passions, and longstanding family tradition of giving. Notable among the participants was the family's newest (and fully engaged) foundation, created specifically to connect the family's fifth generation in their philanthropic legacy.

CFAR interviewed select grantees and helped design and facilitate this momentous meeting, during which the next generation affirmed their own mandate to be involved in philanthropy. This meeting set the precedent for the five philanthropies to gather annually, with CFAR's help. Since the first meeting, the newest of the foundations has accelerated and increased the impact of its philanthropy, exceeding even the founders' expectations.

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Originally the largest research center within The Wharton School of the University of Pennsylvania, CFAR was spun off as a private management consulting practice 25 years ago, and serves family organizations from offices in Philadelphia and Boston. The firm was among the first to recognize and systematically study the attributes that make family-led businesses distinctive, establishing the Family Business Program at Wharton in the early 1980s. CFAR is a corporate sponsor (and founding member) of the Family Firm Institute (FFI), and has presented at numerous family business organizations including FFI, the Council on Foundations Family Philanthropy conference, the Northeastern University Family Business Center, professional groups including AICPA and various state Trusts and Estates groups, the American College for Insurance Brokers, and has been cited frequently in business and trade press on family business issues, for almost three decades. For more information on this or related materials, contact CFAR at info@cfar.com or visit our website at http://www.cfar.com.