



FROM CEO OF THE FAMILY BUSINESS TO CEO OF THE FAMILY WEALTH ENTERPRISE: THE CRITICAL TRANSITION

By Maria Elena Lagomasino and Michael Zeuner, *WE Family Offices*

Most great family fortunes begin entrepreneurially – typically a business, started by a founder, which grows over time to be successful and valuable. The circumstances may vary: sometimes it takes decades, and sometimes only a few years. Sometimes the business stays privately controlled in the hands of the founding family, yet other times non-family ownership is introduced. Under most “success” scenarios, however, the business, the family who owns it, and the primary decision-maker all go through a planned transition. This transition occurs when the decision-making and strategy evolve from being primarily focused on the family business to ultimately being focused on the family wealth enterprise.

A family wealth enterprise is profoundly different from a family business. While having a family business is often a precursor to a family wealth enterprise, a family wealth enterprise may or may not include a family business. The role of the family business within the context of the family wealth enterprise may or not be primary. In addition, the role the family plays within the family business can take multiple forms: owner, manager, passive beneficiary, board, etc. The key point however being that in addition to the family business, the family at some point becomes responsible for a broader family wealth enterprise; a

WHAT IS A FAMILY WEALTH ENTERPRISE?

Our experience has been that families who manage their wealth as if it were an enterprise tend to be successful in sustaining their wealth over the long term. For more detail on what it means to manage wealth through an enterprise lens, please read our paper [“What Is A Wealth Enterprise?”](#)

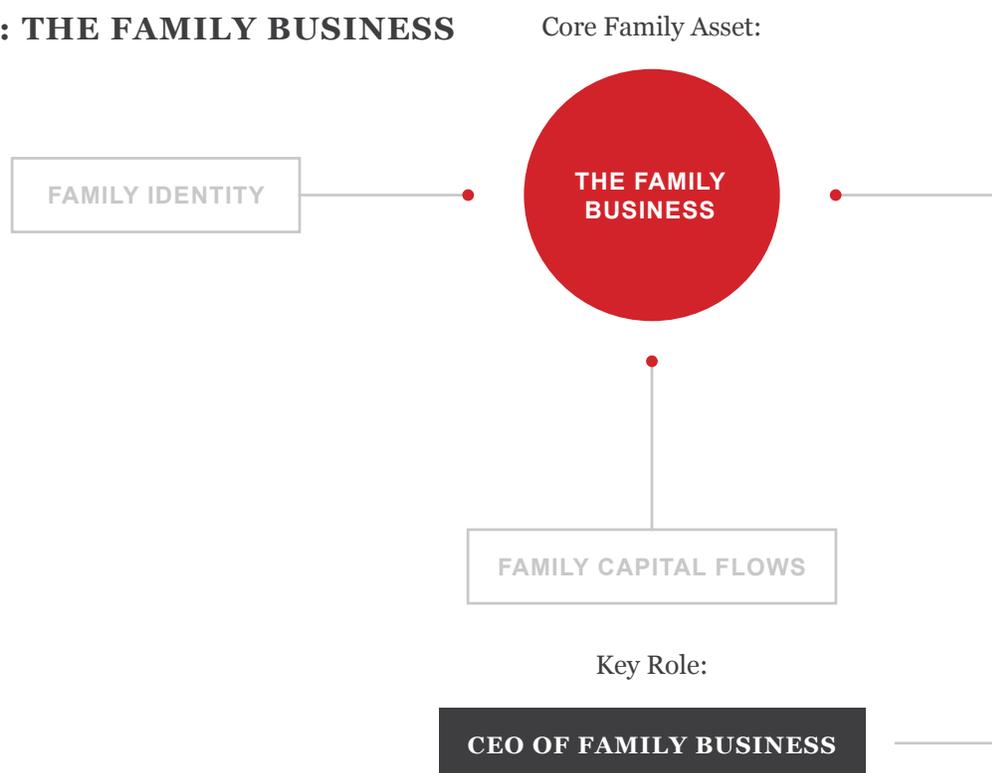
holding company that has several different subsidiaries, of which one may be the family business, but there are likely others (typically investments, both public and private) along with complex ownership and governance structures.

Our experience has been that families who recognize that 1) they own and are responsible for a family wealth enterprise and 2) that the role they have as owners of a family wealth enterprise is different than the role they played when they were primarily owners of a family business, tend to feel more successful, more engaged, more confident and more in control of their affairs. Most importantly, they have a higher probability of success in sustaining their family's wealth over the long term.

|| THE JOURNEY

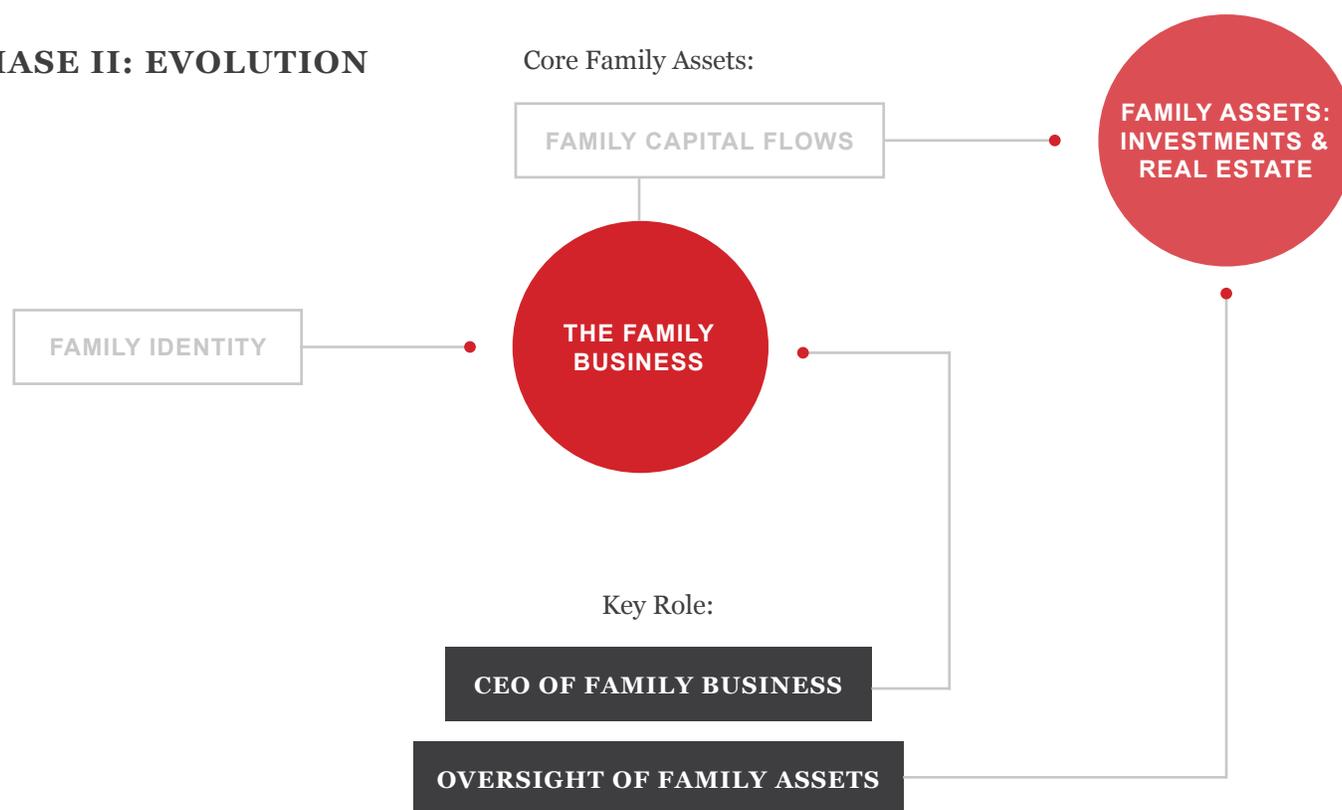
Most family fortunes start with a core family asset – the family business. The family's identity is often associated with the business (often the name is “on the door”) and most often the family's financial capital is all directed at investing in and funding the family business. The key decision-making role with respect to the family business is the CEO of the business, and most non-family decisions are focused on the business, its growth and future trajectory.

PHASE I: THE FAMILY BUSINESS



Over time, as the family business is successful and grows, the family accumulates excess capital, not needed for reinvestment in the business, and a pool of family assets builds, outside of the family business. In this phase, decision-making broadens to be not only about the family business, but also about the growing pool of family assets. Most likely liquid investments and personal real estate dominate the family's wealth portfolio. In this phase, sources and uses of capital become more complex: the business is primarily a source of capital, and the family assets are both a source of capital (the investments) and a use (personal real estate and private investments in the early stages of their j-curves). Rather than thinking solely about the capital requirements of the business, the family also needs to start thinking about the capital requirements of the family and how to fund those requirements from both the business and the accumulating investment assets.

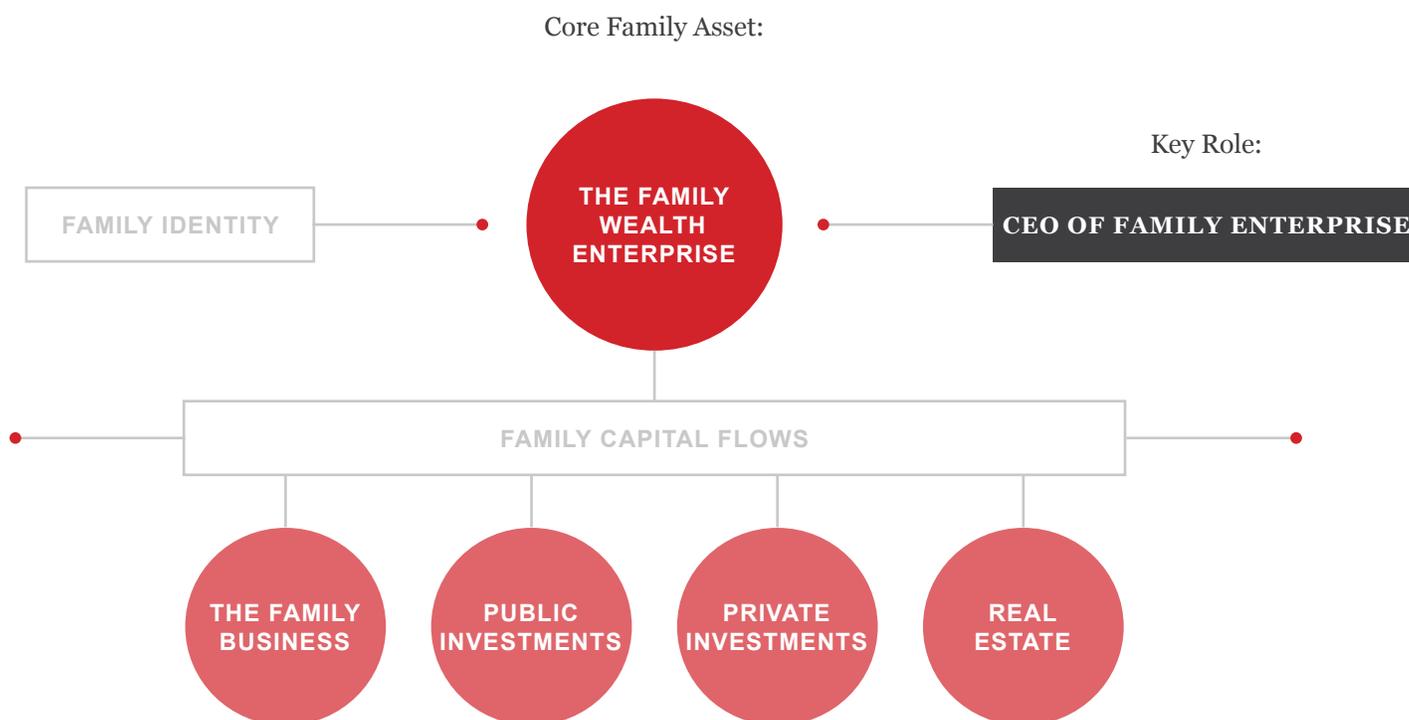
PHASE II: EVOLUTION



Not only does the family have to run the business, it also has to strategize and manage the growing pool of family assets. In particular, the family ideally starts to think about strategic management of the family's portfolio. This requires developing an investment strategy and asset allocation, identifying managers for the various investments, and developing reporting and information to track and manage the pool of family investments (outside the business) appropriately. Often, the family will leverage employees of the family business (the CFO, general counsel, etc.) to help them oversee and manage the family liquidity.

And while not all business-owning families have the good fortune to reach a third phase, many do. It's the transition into a full blown family wealth enterprise, in which the family business is no longer the only driver of the family wealth, but instead just one (important) subsidiary of a range of subsidiaries subsumed under the family wealth enterprise (or holding company). At this point decision-making broadens to be about a complex wealth enterprise with multiple subsidiaries. There are complex sources and uses of cash between entities and family capital flows to and from all these entities across the entire enterprise.

PHASE III: FAMILY WEALTH ENTERPRISE



As the family wealth enterprise builds, it becomes more complex. The number of providers working with the family (lawyers, accountants, trustees, investment managers, banks, brokers, etc.) likely increases exponentially. Likewise, the type of support required to manage this complex ecosystem of providers evolves, often out-growing the abilities of the business associates who may have been seconded into support roles for the family along the way. In addition, family complexity increases as well as the founders who built the family wealth (G1) are now joined by G2 and even G3 in the family decision-making. It's also likely at this point that complex ownership structures are introduced.

But the most important and profound transition that happens as the family moves from focusing on the family business to the family wealth enterprise, is that the decision-making moves from being focussed on the family business to being focussed on the family enterprise. Specifically, the

decision-making shifts from being focussed on the business, to being focussed on the family.

The key point is that not only has the nature of the family enterprise changed, from being a business-owning family to a family wealth enterprise, but the role of the family leader has shifted profoundly as well – from being the CEO of the family business, to being the CEO of the family wealth enterprise.

This shift has important implications:

- The family business founder would benefit from **shifting his or her perspective** from being the leader of a family business, to being the leader of a family wealth enterprise – or holding company – with a potentially profoundly different strategy and vision. This new strategy and vision becomes about the family, not the family business.
- The **“true north” of decision-making shifts** from being about the family business, to being about the family. The family business becomes a means to an end, as opposed the end itself. Decisions about investments, capital flows, structures and planning, and risk management all now evolve around a higher level objective – the family’s objective, not just the family business’ objective. In the business, the leader was likely focussed on the “true north” related to the business’ value proposition, market share, competitive landscape etc. In the family wealth enterprise, the leader is focussed on the “true north” related to the family: **sustaining the family’s human capital**, first and foremost.
- **Sustaining the family’s human capital** as the primary driver of the family’s wealth enterprise means the decisions being made are all about the family. This would include their living requirements; educating and preparing future decision-makers; a family governance framework that engages and involves multiple family members; a philanthropic mission; etc. In this context, the family business often gets subsumed to supporting the agenda of the family, an agenda which often includes items such as: keeping the family harmonious; providing for the

SUDDEN WEALTH TRANSITION

The transition from CEO of a family business to CEO of a family wealth enterprise typically happens gradually with the CEO learning and transitioning along the way. We have seen cases however in which the transition is sudden, situations in which the transition into leader of the family wealth enterprise happens quickly. In many cases, the spouse (often the wife) has to step into a leadership role with little experience or preparation. For more on this situation, please see our paper [“Beyond Wealth Transition: Role Transition”](#)

lifestyle and living expenses of various family members; supporting the development of rising generation family members; accomplishing an philanthropic or legacy objective. These are all objectives that go significantly beyond the objective of the family business, and the family business, along with the other assets in the family wealth enterprise, all support the family (instead of the other way around).

- **Complexity of managing the enterprise increases:** Managing this greater complexity typically requires broadening decision-making to involve more members of the family, creating dedicated support for the family in managing its enterprise, - apart from the support it receives managing the business; and communicating with a wider pool of stakeholders in the family wealth enterprise, as opposed to just those involved in the family business.

The transition from leader of a family business to leader of a family wealth enterprise is a profound and important one. As we stated above, our experience has been that families who explicitly recognize that: 1) they own and are responsible for a family wealth enterprise; and 2) the role they have as owners of a family wealth enterprise is different than the role they played when they were primarily owners of a family business, tend to feel more successful, more engaged, more confident and more in control of their affairs and assets and, critically, have a higher probability of success in sustaining their family's wealth over the long term.

IMPORTANT INFORMATION AND DISCLOSURES

This document is confidential, is intended only for the person to whom it has been provided and under no circumstances may a copy be shown, copied, transmitted or otherwise given to any person other than the authorized recipient without the prior written consent of WE Family Offices LLC ("WE"). WE is under no obligation to update the information contained herein. This material may not consider the specific investment objective, financial situation or particular needs of any recipient. Past performance is no guarantee of future results.

The views, opinions and recommendations expressed here are subject to change without notice and is for informational purposes only and should not be considered as investment advice or an offer of any security or service for sale. WE and its representatives are not your investment advisers unless entered into a written advisory services agreement. Information contained herein may have been obtained from sources we believe to be reliable, but we do not guarantee its completeness or accuracy. All opinions expressed herein are those of WE, unless otherwise indicated.

When an investment adviser provides tailored investment advice to clients based on its investment skills and analytical abilities, there is a chance that such investment advice will not be successful or will not meet expectations and that subjective decisions made by such investment adviser may

cause a client to incur losses or to miss profit opportunities. Similarly, asset allocation risk is the risk that an investment adviser may allocate or recommend the allocation of a client's assets to an asset class or mandate that underperforms other asset classes or mandates. For example, fixed-income securities may underperform equities at times, and at other times, equities may underperform fixed-income securities. In addition, some asset classes may be less liquid or provide less protection against various risks than other asset classes.

As used herein, the investment classification "Private Markets" generally encompasses investments other than traditional stocks, bonds and cash, and includes hedge funds, funds of funds, private placements, private equity and real estate funds. These investments will often be less liquid than traditional investments and redemptions from such investments often involve holdbacks and other restrictions on the timing of the redemption.

Private placements, limited partnerships, hedge funds, funds of funds, or other types of these investment vehicles are typically illiquid, often for long periods of time, i.e., years. The terms governing these investments generally provide for significant redemption notice periods, lock-up periods, and holdbacks upon redemption, resale restrictions, and other provisions that preclude prompt liquidation of these investments.

In accordance with the rules of Treasury Department Circular 230, any information in this presentation pertaining to federal taxation and using such terms such as "tax planning" is not intended or written to be used, and cannot be used by you or any other person, for the purpose of (i) avoiding any penalties that may be imposed by the Internal Revenue Code, and (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

This presentation does not constitute the provision of investment, legal or tax advice to any person. Please consult with your tax advisor regarding any taxation implications of the information presented in this presentation.