CAN A FAMILY OFFICE PROVIDE A FAVOURABLE TWIST TO THE STORY OF SUCCESSFUL ASIAN ENTREPRENEURS?

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Irrespective of the continent, it seems that some stories keep repeating themselves, and sometimes not for the best. Many entrepreneurs, whilst very successful in their business, often fail in the financial arena (sometimes even unknowingly) – and believe you me it doesn't only happen to others…

The story pattern usually begins in the same way: a successful entrepreneur with a next-generation concern has high investment performance expectations, but his "vile" private banker is providing him with unreliable advice. More recently, a new character has entered the story; the family office. Will this new hero solve the issues and save the day? Whilst for the sake of a happy tale we would wish for an affirmative answer, the reality is a little more complex.

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Let's start from the beginning. Once upon a time, an entrepreneur was planning an IPO. The intensity of the final deal, often associated with last-minute twists, further shields our owner, who wants to focus exclusively on getting the deal done. With such a narrow perspective, he will often lose sight of the implications for life after the sale.

Once the deal is finally clinched, feelings run high – with the entrepreneur usually rewarding himself by making previously unfulfilled material dreams come true (with planes, boats, etc.). In the exuberance, the label of an asset class lends these acquisitions a reassuring air of justifiability. At this stage, money is the sign of recognition, possibly happiness and somehow success.

Curiously, once the euphoria of the sale of the company fades, our newly retired entrepreneur finds himself with time to ponder – which can be simplistically summarised as "What next?". Whereas he had previously been too busy or simply not interested, with too much time on his hands, he now decides to venture into the uncharted world of finance. Inebriated by his business success, he confidently then sets out to replicate his business acumen in the financial world. At this point, our entrepreneur will feel financially invulnerable. This is where our story turns sour and his dreams costly, as the financial world unleashes its differences; from the "*one stock control it all approach*" to a "*multi stock with no control*" world. The 2008 crisis was the theatre of many tragedies, with some investors enduring unnerving experiences during that time.

So what went wrong? Part of the business success of our entrepreneur is secured by hiring capable and trustworthy employees and delegating, either partly or fully, some of the important tasks to these individuals. Interestingly, whilst appointing a CEO, CFO or COO is the norm in corporate governance, creating a similar professional platform in the private sphere is less common practice. Such an imbalance between a business set-up and a private set-up is surprising. Although entrepreneurs have institutional wealth, most of the time this wealth is not managed in an institutional way. Many entrepreneurs have either assumed full responsibility for it themselves, used advisory services or delegated management of their wealth, most commonly using a "private banking solution". Any of these may have served them well up to a point, but not necessarily beyond it. So, when and how can an end be put to such an unfounded organisational dichotomy? Will a Family Office do the trick?

As a rule, the advice is to set up a Family Office prior to any event. One of the initial purposes will be to create a financial platform which will initially be of an exploratory nature, the aim being that the entrepreneur feels comfortable with the set-up before any substantial event. The structure has to be understood, its dynamics managed, its strengths identified and then, increasingly, it has to be fine-tuned to meet the family's objectives. Organisationally, it is usually a blend between the private banking model and the institutional one. It is an embryonic set-up on which to build financial wealth, before any irreparable damage is done. Whilst removing the threat of unpleasant surprises, it offers greater stability, coherence and more importantly peace of mind once the new capital flows come in.

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As the story evolves, the wealth accumulates. Our original platform may now develop and mature towards a set-up similar to an endowment model. There comes a phase in our tale where the Family Office should consider outsourcing the CIO function. Although the private banking model offers flexibility and may be suitable in many cases, as a bank employee the CIO will secure investments for his clients according to a traditional risk tolerance grid. At some point, an entrepreneur is likely to query whether a "one size fits all" solution is suited to their situation. At this stage, and for most entrepreneurs, the main risk lies in their business, as this is their principal source of wealth. For example, one entrepreneur's business was focused on the luxury segment with revenues coming predominantly from China. Meanwhile, his private bank favoured luxury equities with exposure to...China. Paradoxically, whilst his private bank invested in the Richmont Group stock, his other private bank sold it – resulting in a zero-sum game for our entrepreneur. Furthermore, the overall picture was imbalanced and did not fully offset his existing risk. What is more, our entrepreneur doesn't have the time to manage his portfolio, as his focus is on his business.

This is a stage at which having a CIO dedicated to managing the family wealth becomes relevant and appealing. Whether insourced or outsourced, the CIO's role will be to take a holistic perspective on the family's wealth and reflect this accordingly in the investments. Whilst most establishments will focus on asset management, few realise the importance of understanding non-financial assets. Alphas, betas and information ratios are important, but contextualising them is just as important, if not more so. Understanding the specifics of non-financial assets is a first step towards successfully managing a family's financial assets.

Unlike non-financial assets, financial ones behave in specific ways; they are flexible and can be moulded to any existing risk exposure. They are divisible, which can be useful in the event of distributions or successions. They are different and the family must build on the strength resulting from those differences. Creating and formalising a family investment policy must take these attributes into account to ensure a broad view of family wealth. Furthermore, it provides time for the entrepreneur to concentrate fully on his business or any other issues of interest.

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Among sophisticated families, reliance on an investment committee to translate this broad view and the family's objectives into financial reality is common. Some governance models assign a number of responsibilities to an investment committee, ranging from strategic asset allocation to a simple controlling and reporting role. Furthermore, and based on the established wisdom that, as wealth evolves, dependence on financial assets increases, some families also use the investment committee as an educational platform for the next generation.

When it comes to preserving family wealth for future generations, the feuds of others are an important reminder of how crucial it is to protect financial capital. Even a shrewd businessman and entrepreneur can see hard-earned wealth fall prey to poor planning. Setting up a comprehensive governance from the very beginning of wealth creation, whether it be a Family Office, an investment committee or a CIO, will ensure that our entrepreneur is successful in the financial world as well.

However, these are all organisational decisions. The twist is that the story should really start with the objectives, i.e. defining what common strategy the family wishes to set for itself for the coming generations. The process usually starts with outlining and then formalising family values. A family strategy will increase the chances for a smooth transition from one generation to another, provide guidance for defining objectives for the family wealth as well as offering a framework on which to build the relevant organisational family set-up, regardless of whether this is a Family Office or not. In other words, to allow for successful preservation of assets over the long term, the Asian twist for the happy end should start at the beginning; setting up and formalising the family strategy. This will increase the likelihood of the family living happily ever after...