SINGLE FAMILY OFFICES FOR FAMILIES IN BUSINESS:

WEALTH CREATION CHALLENGES AND STRATEGIES

IE UNIVERSITY
CENTER FOR FAMILIES IN BUSINESS

fundación abante

CRISTINA CRUZ

Professor of Entrepreneurship and Director of the IE Center for Families in Business

I am honored to present this study, the result of a partnership between the IE Center for Families in Business at IE Foundation and the Abante Foundation. Together, we have explored the growing relevance of single-family offices (SFOs), organizations that, while increasingly important, remain largely unknown.

At the IE Center for Families in Business we have been applying the fundamentals of behavioral economics to the decision-making process of families in business for over 25 years. This cumulative expertise has enabled us to grasp that the wealth of these families is more than merely financial, encompassing socioemotional dimensions that are essential for preserving the family legacy.

This "socioemotional wealth" turns families into architects of a legacy intended to endure and thrive over time and positions the SFO as an effective tool for achieving wealth creation across generations.

Nevertheless, starting up and running an SFO is extremely challenging due to the wide-ranging objectives it pursues and the complex task of aligning the expectations of individuals with diverse dreams and aspirations. This report spotlights these challenges and provides an in-depth analysis of how families in business can successfully navigate them. Thanks to a cross-section of Spanish SFOs who have generously opened their doors to us, we have uncovered inspiring stories of resilience, long-term vision, and commitment to family legacy.

By sharing the experiences and best practices of these SFOs, we hope to inspire other families in business to think about their own purpose and devise strategies that will enable them to generate wealth and thrive across generations. We encourage them to review the findings of this study and draw on them as the basis for charting a scenario of continuity for the SFO. We are confident that a customized, effective wealth strategy will enable families in business to successfully address the challenges of the future and prepare the next generation to build on their legacy.

This study also bears out the crucial role that families in business play in the world. Their wealth, properly understood and managed, generates benefits that reach out beyond the family to have a positive impact on society. The testimonies of the owners and managers interviewed confirm that SFOs are not merely wealth management tools but also powerful vehicles for wealth creation, innovation, and progress.

We very much hope this study will inspire more SFO owners to proudly showcase how they manage their wealth effectively and responsibly and to wholeheartedly convey the positive impact they have on their communities and the global economy.

SANTIAGO SATRÚSTEGUI

President of Abante

FAMILIES IN BUSINESS AS GENERATORS OF WEALTH

The Abante Foundation was set up in 2023 with the steadfast purpose of enriching people's lives, both individually and collectively, by furnishing a meeting place that fosters humanistic thinking, the exchange of ideas, and frank discussion of the important issues of our time. We seek to build an environment that not only encourages people to improve as individuals but also enhances society as a whole.

This report is an example of the diverse initiatives we support at the Abante Foundation in partnership with other like-minded institutions such as the IE Foundation and the team at the IE Center for Families in Business.

We share the vision of underscoring the significant input of family businesses and families in business to generating meaningful wealth.

The Abante Foundation wishes to redefine the concept of *wealth* and argues that it is not simply a matter of amassing money, as unfortunately it is often perceived today in its financial usage. It is a much broader concept that calls for a deeper understanding. Genuine wealth should be seen as a profoundly social and collective concept. No one can be rich on their own. The real value of wealth is revealed when it is shared, turning it into a driver of progress and a legacy that enhances not only the lives of those who have it but also of those with whom it is shared.

From this standpoint, single family offices (SFOs) are prime venues for structuring and aligning families' financial strategies with the purpose of wealth while using it to pursue higher goals such as the continuity of family values, the sustainability of their business projects, and the positive impact it has on their communities. As generators of meaningful wealth, families in business are uniquely positioned to lead conversations about creating value that is not purely financial.

We are grateful for the generosity of the families who were interviewed and whose experiences and insights have been instrumental in informing this analysis. We hope that this study will be a source of inspiration and support for all those families looking to plan and build their wealth over time.

Contents

PART 2:

** An investment policy statement (IPS) is a bespoke investment handbook that sets out principles and procedures to guide asset management.*

LIST OF TABLES

LIST OF FIGURES

LIST OF TABLES AND FIGURES IN THE APPENDICES

Introduction

Family offices (FOs) date back to the nineteenth century when prominent industrial families, such as the Morgans and the Rockefellers set up the first FOs, namely The House of Morgan and Rockefeller Office, with the goal of effectively managing their wealth. Since then, many other families in business have built their own wealth management structures, more commonly known as single family offices (SFO), while firms specializing in advising families on their wealth management or multi-family offices (MFO) have also emerged.

SFOs have grown dramatically over the past two decades, with an estimated four out of every 10 FOs operating today being set up in this period. A report by Campden Research and UBS[1] shows that as of 2019, there were over 7,300 SFOs worldwide, which collectively managed a total of US$5.9 trillion in assets. This growth has been especially strong in North America and Europe although there has also been a recent surge in Asian SFOs. Notwithstanding their increasing importance, there is still limited awareness of SFOs which poses a challenge for families in business seeking to preserve and grow their wealth in a fast-moving, highly challenging landscape. Furthermore, SFOs are private entities and their owners' yearning for confidentiality restricts access to public information about how they operate which, in turn, makes it difficult to adopt best practices and make informed decisions.

Spain is no exception to this trend. Spanish SFOs are seeing remarkable growth, cementing their position as leading players in the country's economic and social landscape. However, as pointed out in a recent study by Campden Wealth and HSBC Global Private Banking, "Here in Spain, family offices are very private, there's no public information on how they operate, their cost structures, their asset allocations, or the technologies they use. So getting a view on what is best practice is virtually impossible."[2]

Against this background, this IE Center for Families in Business and Abante Foundation study is especially significant. The generosity of a representative group of Spanish SFOs who have shared their experiences via in-depth interviews (see Appendix 2 for the interview scripts) has furnished valuable insights into the drivers behind setting up an SFO, the initial dilemmas, and the challenges of running it.

The extensive variety of goals and strategies identified in the participating SFOs confirms the view that "if you have seen one SFO, you've only seen one SFO". Nonetheless, and notwithstanding the huge diversity among them, a common pattern does emerge: the need to come to an agreement on the goals of shared family wealth and bring them into line with a consistent, consensus-based strategy to ensure its long-term success.

This study thus aims to help families in business to specifically define the purpose of their wealth, and to deploy a continuity plan based on that purpose that enables them to create wealth over numerous generations. The report is therefore not simply a list of good practices. It also draws on the authors' expert knowledge of the behavior of families in business and wealth management. The aim of this is to furnish insightful discussions into the challenges facing families in business when managing shared wealth as well as analyzing the keys to handling it successfully.

[1]Campden Research and UBS, *The Global Family Office Report 2019,* 2020, https://www.campdenwealth.com/report/global-family-office-report-2019.

[2]Campden Wealth and HSBC Global Private Banking, *The European Family Office Report 2023*, 2024, https://www.campdenwealth.com/report/european-family-office-report-2023.

SFOs FOR FAMILIES IN BUSINESS

WHAT DOES THIS STUDY AIM TO ACHIEVE?

PURPOSE

To identify the key success factors that enable Single Family Offices (SFOs) to foster sustainable wealth creation across multiple generations.

GOAL

To assist families in defining their wealth objectives and developing a continuity plan that aligns the SFO's mission with its strategy, ensuring the long-term sustainability and growth of the family's wealth.

WHO IT IS FOR?

FAMILIES IN BUSINESS

Looking to preserve their wealth giving it a clear and meaningful purpose. It is for those who do not yet have an SFO and are seeking to put a solid foundation in place and also for those who already have one and would like to rework and align its purpose with an effective wealth management strategy.

INDUSTRY PROFESSIONALS

Seeking to acquire tools and knowledgeto support families in business in this mission by gaining a thorough understanding of their specific features and challenges.

HOW WAS IT DRAWN UP?

Interviewees	Total interviews	Time frame
25	43,5 hours	23-24 Sep. Feb.

Twenty-five interviews were conducted with **owners and non-family managers** of 19 SFOs run by Spanish families in business.

The interviews were held between September 2023 and February 2024 lasting one and a half hours on average (see Appendices 1 and 2 to learn more about the sample and methodology).

Throughout the project **we spoke with experts in the sector** to gain further insight into the interviews conducted. We also relied on academic papers and reports on SFOs.

CONTENT AND USE

PART ONE: SETTING UP THE SFO

I. **"Defining the SFO's mission"** emphasizes the importance of deciding the SFO's purpose as a preliminary step in its design and outlines different types of SFOs.

II. **"Designing the SFO"** sets out the SFO's framework, strategies, and organization based on the types of SFO identified.

PART TWO: LAUNCHING THE SFO

I. **"What challenges does the management of an SFO present?"**, the main challenges faced by the owners and managers of an SFO are identified.

II. **"How to successfully manage these challenges?"**, best practices are proposed to successfully overcome these challenges.

PART THREE: FROM PURPOSE TO ACTION

I. The **"SFO continuity scenario"** outlines an action plan to guide the process of setting up, starting up, or redesigning an SFO.

II. **"Llorente family case study"** describes the process followed by a family in business to deploy this action plan.

Part 1

Setting up the Single Family Office (SFO)

This section looks at the common features of the SFOs interviewed and explores the diversity in their approaches. We use these common features to define what an SFO is and how it differs from other asset structures. We also identify three types of SFO, enabling us to simplify the considerable diversity found in the SFOs interviewed.

Based on this initial analysis, we establish the first key step in setting up an SFO for a family in business: **defining the SFO's mission.**

I. Defining the SFO's mission

1. What is an SFO for a family in business?

2. What are the reasons for setting up an SFO?

3. What dilemmas arise when setting up an SFO?

4. Types of SFOs for families in business

1. WHAT IS AN SFO FOR A FAMILY IN BUSINESS?

The ongoing evolution and the variety of approaches used to study SFOs means that, currently, there is no consensus as to their definition.[3] Considering this heterogeneity, we have opted for asking our interviewees what they understood by an SFO, identifying the following patterns:

1.1. The purpose of an SFO is to give meaning to family wealth and so it should be viewed as something more than a mere financial wealth management entity.

This is because in most cases, its goals are not strictly limited to the financial sphere but instead encompass other non-financial objectives that are important to the owner family such as preserving family values, the continuity of the family legacy, teaching the new generations, and having an impact on the community and/or society:

> "It's a family financial wealth management office and also a corporate financial wealth management office; that's perhaps what most people think it is, but it does a lot more than just that."

> —

> The family office includes not only the investment vector but also, and most importantly, the vector of planning the family transition and how to help the new generations to continue this project responsibly."

Family business research calls these non-financial objectives of families in business socioemotional wealth (SEW) **(see Figure 1)**.[4]

[3]Elena Rivo-López et al., "Family offices: What, why and what for", *Organizational Dynamics 46* (4) (October 2017): 262-270, http://dx.doi.org/10.1016/j.orgdyn.2017.03.002.

[4]Luis R. Gómez-Mejía et al., "Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills", *Administrative Science Quarterly* 52 (1) (2007): 106-137 https://doi.org/10.2189/asqu.52.1.106.

Figure 1. Financial wealth and socioemotional wealth

As we will see below, this duality of wealth conditions the SFO's decision-making and its perspective on risk and return.[5]

1.2. An SFO provides wealth management services as well as other customized services that cater for the family's specific needs.

The focus on family and preserving socioemotional wealth also explains why the SFO's "raison d'être" is managing the needs of family members, according to many interviewees:

> "It's an investment office that also provides services to the family. I don't see it as a personal service but rather as an essential part of wealth management to pass on the legacy. This is where it differs from an investment family office."
>
> —
>
> "In my view, the family office is a team and an organization that supports the owners of wealth in making decisions and provides them with financial, legal, probate, and other services."
>
> —
>
> "It's the company set up to deliver services to families which seeks out investment for them, manages it, tracks it and provides them with professional and highly personal reports and services."

1.3. An SFO is a stand-alone structure (separate from the family business if there is one) with independent resources.

Interestingly, most of the interviewees acknowledge that before the SFO was formally constituted, the family in business was already investing outside the original business or family enterprise through other corporate structures, albeit in a less organized way. Indeed, many acknowledged that in the early days they were not aware that they "had an SFO":

> "Back then it wasn't called a 'family office'; specifically, it was called a 'wealth management office' and it had a number of buildings and money that was invested in treasury bills, bonds, and bank deposits. Then a member of the family started reading about what the Americans called 'family offices' and we realized that was where we wanted to go."

This is why many emphasize in their definitions that to be considered an SFO, there must be a stand-alone organization with its own resources:

> "Before the SFO came along, no one was engaged in this but instead there were people trusted by the family and what they did was to manage money and properties that had been taken out of the industrial group."
>
> —
>
> "A stand-alone organization with a professional team and resources separate from the family business that aims to preserve, diversify, and increase economic and financial wealth and also the family's own knowledge and networking."

[5] Antonia Schickinger et al., «Family-related goals, entrepreneurial investment behavior, and governance mechanisms of *single family offices*: An exploratory study», *Journal of Family Business Strategy 14* (2), (june 2023): 100393, https://doi.org/10.1016/j.jfbs.2020.100393.

Table 1. Comparison of SFOs with other wealth structures

	Family holding company Legal entity that owns and controls the shares and assets of other family-owned undertakings	**Asset holding company** Legal entity set up to manage and administer a family's financial and business assets	***Embedded family office (EFO)*** Informal structure embedded in the family business, in many cases managed by the family business's CFO	**SFO** Entity engaged in providing holistic meaning to the family's wealth based on the family's goals and needs over time
Independent resources (from the family business if there is one)	No	Yes	No	Yes
Stand-alone structure	No	Yes	No	Yes
Wealth management services	Yes	Yes	Yes	Yes
Family services	Yes	No	Yes	Yes

Drawing on the above, an **SFO can be defined** as follows:

> A **single family office (SFO)** of a family in business is an entity engaged in providing holistic meaning to the family's wealth based on the family's goals and needs over time.

This definition is broad enough to reflect the huge diversity in what families mean by SFOs yet specific enough to pinpoint the unique features of SFOs as opposed to other structures that families in business design to address issues related to their wealth, as shown in **Table 1.**

Furthermore, the emphasis on the definition, framework, and customized management of the SFO for a single family clearly sets it apart from MFOs, which are specialized service companies that advise several families on their wealth management.

Many families in business pursue a hybrid strategy that combines the best of both worlds. These families choose to set up their own SFO to address specific and highly personalized aspects of their wealth, thus leveraging the flexibility and individualized care that this model delivers. However, they also recognize the added value they can gain by partnering with an external MFO to cover areas where specialized expertise is required, to access a wider range of services and investment opportunities and cut operating costs.

Setting up an SFO calls for prior cost-benefit analysis, as building this structure is costly and may not make sense in all cases. Hence, each family must review its needs and capabilities before deciding on the best wealth management structure to serve its needs.

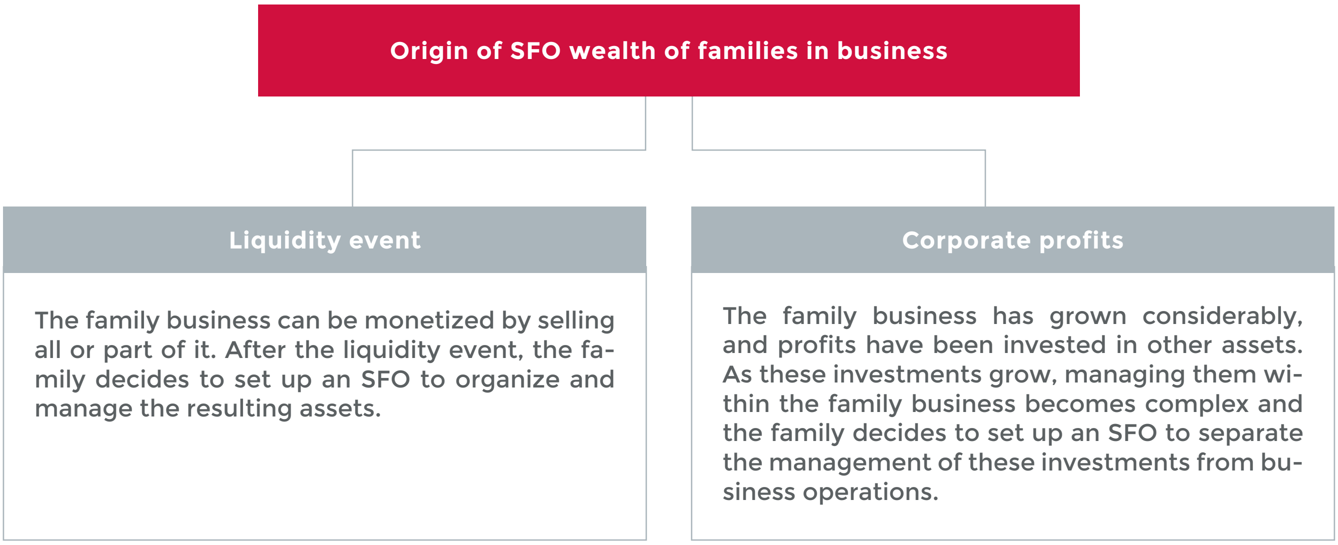
2. WHAT ARE THE REASONS FOR SETTING UP AN SFO?

The wealth prompting the set-up of an SFO may come from **two sources** as shown in **Figure 2.**

The SFO's **origin** is crucial to understanding its diversity. Families who retain their family business think of it differently than those who have experienced a liquidity event. After the sale of the company, a family may view the SFO as the new core business which shapes asset allocation. In addition, in these cases the SFO generates most of the income due to the absence of dividends from the family business.[6]

[6] Antonia Schickinger, Philipp A. Bierl, Max P. Leitterstorf, and Nadine Kammerlander, "Family-related goals, entrepreneurial investment behavior, and governance mechanisms of single family offices: An exploratory study", *Journal of Family Business Strategy* 14 (2) (2023) https://doi.org/10.1016/j.jfbs.2020.100393.

Figure 2. Origin of SFO wealth



In contrast, families that still own their business do not put the SFO at the center of their wealth management. Here the manager of an SFO of a family that still retains its business noted:

> "When we started out, we talked to other families and realized that those who had sold their family business had a very different approach. These families are totally reliant on their family office and cannot meet their financial needs through capital preservation alone. Instead, they are compelled to grow their assets. Our case is different because there is dividend income from the family business."

The results of the interviews revealed striking diversity in terms of the reasons for setting up an SFO. Following their analysis, they were divided into nine major groups as shown in **Table 2.**

Table 2. Reasons for setting up an SFO

REASONS	COMMENTS
1. Professionalizing wealth management	"The first generation made investment decisions with no strategy. They made highly tangible investments, directly related to the company. Recently, the current generation has started to take a more strategic approach, aiming to professionalize management and better manage the family's wealth."
2. Diversifying family wealth	"What the family office tries to do is to provide you with a cushion so that you have peace of mind when diversifying your wealth. This offsets the ups and downs of the family business with efficient financial diversification."
3. Achieving privacy and independence in wealth management	"It makes no sense for the whole company to know what the family has. And since everything was mixed up, it was very hard for them not to know because we needed their input. So, we started to separate things."
	"That's when I also figured out that sometimes there's a misalignment of interests in the wealth management industry. One of the reasons you get a family office is because of that, because you can't always leave things to others."
4. Encouraging the entrepreneurial spirit	"Our family is very entrepreneurial, so one of the family office's goals is to support the family in this entrepreneurial process, from putting together a business plan to building a corporate framework that fits this entrepreneurial venture."
5. Keeping the family united	"The most important thing for me in a family office is keeping the family together; sharing goals and getting everyone engaged, and not feeling like we're doing things to benefit some members and not others."
6. Passing on family values	"Throughout my life, I've always heard the family say, "Money is inherited, intelligence is not, and values must be passed down." The third generation has grown up with this message, and it shapes the philosophy of our family office."
7. Educating family members	"Education is extremely important in a family office. You have to reset the family's minds so that they understand how this works and teach them that the mindset of the entrepreneur and the investor are completely different."
8. Maintaining standing and prestige as entrepreneurs	"When you've been in a high-paced job, with a lot of responsibility, you're eager to get back to doing something that has an impact when you set up your family office."
9. Fostering community development	"We see the SFO as an organization that generates stability and keeps the family united while also bringing wealth to our immediate community."

A closer analysis of these reasons shows that for families in business, there are three main "Logics" behind setting up an SFO (see **Figure 3**): a family Logic (the SFO conceived as a framework to preserve the family legacy); a financial Logic (the SFO as a tool to ensure the financial wellbeing of family members), and an entrepreneurial Logic (the SFO as a way to maintain the identity of families in business).

Figure 3. Logics when setting up an SFO

Passing on family values	Professionalized wealth management	Encouraging the entrepreneurial spirit
Keeping the family united	Privacy and independence	Maintaining standing and prestige
Teaching family members	Diversifying wealth	Fostering community development
FAMILY LOGIC Preserving the family legacy	**FINANCIAL LOGIC** Ensuring the financial wellbeing of family members	**ENTREPRENEURIAL LOGIC** Generating impact as families in business

These three Logics underpin the planning of every SFO. This accounts for the enormous complexity of managing an SFO since as shown below, trying to juggle these three Logics—which are not always compatible with each other—poses a number of dilemmas for owners and managers when it comes to defining the SFO's purpose.

Furthermore, **the significance of each of the Logics varies across SFOs**, leading to a classification that helps in part to explain the enormous diversity we found among the SFOs interviewed. This significance may, moreover, vary over time as the composition of the family and its relationships evolve together with the complexity of the shared wealth.

3. WHAT DILEMMAS ARISE WHEN SETTING UP AN SFO?

Each of the three Logics—family, financial, and entrepreneurial—involved in setting up an SFO is associated with a set of values and behaviors which are not always compatible with each other. The interaction of the three Logics thus poses a number of dilemmas for families in business when framing the mission of their SFO. Based on the interviews conducted, **Table 3** summarizes the main dilemmas faced by SFO owners.

Table 3. Dilemmas faced by SFOs

DILEMMA	WHAT DOES IT CONSIST OF?	WHY IS IT A DILEMMA FOR FAMILIES?	COMMENTS
Family vs. individual objectives	Do we want the SFO to fulfill a common vision as a family in business, to cater to the individual interests of family members, or a combination of both?	Unlike running a family business, the SFO offers greater flexibility in accommodating the individual interests of family members, yet it is important to keep some consistency between them.	"You have a defined asset allocation and suddenly, at a board meeting, a family member raises their hand and says they want to buy shares in whatever. Is that allowed or not? Are they trapped inside their own project or are they free to do whatever they want with their money?"
Preserving vs. creating value	Do we want to preserve family wealth, are we looking for investments that will make it grow, or a combination of both?	The quest for higher returns entails higher risks that families are sometimes reluctant to take, and setting up an SFO involves costs that have to be borne. Moreover, as the family grows, it is essential to grow its wealth to ensure the financial wellbeing of its members.	"The family office is defined with a high level of risk aversion, i.e. it is a conservative family office, so the return is risk-adjusted there. But it has to be ahead of inflation, it has to bring in more than what it costs to run, and it has to be able to grow wealth and not shrink it. If you do nothing, structural costs and inflation mean that in the end your wealth will diminish every year."
Distribution vs. reinvestment	Do we want to distribute earnings among family members or reinvest them in the growth and development of the family's wealth, or a combination of both?	Families may distribute a substantial portion of earnings as dividends to family members which may reflect support for current generations. However, reinvesting earnings can be crucial to expanding and enhancing the family's long-term wealth.	"There's always a family discussion about whether to distribute earnings as dividends or to reinvest them in the growth of the business. It's a tricky trade-off between meeting current needs and ensuring a prosperous future for the family and the business."
Tradition vs. diversification	Do we want to distribute earnings among family members or reinvest them in the growth and development of the family's wealth, or a combination of both?	Families bring with them a legacy involving values, identity, and culture that they may want to wholly or partially embed in the new project. Conversely, they may wish to decouple from the previous project and forge a new identity as families in business.	"We're familiar with our industry and when we want to diversify, we don't have the same expertise."
Family control vs. professionalization	Do we want the family to be closely engaged in the SFO's financial and operational decision-making, outsource it to experts, or a combination of both	Families can choose a management model that ensures control over decision-making or outsource this management to external partners with specific wealth management skills and expertise.	"We hired our wealth manager out of necessity because in the family we didn't know anything about real estate, but our goal is for the family to be at the helm."
Privacy vs. public exposure	Do we want to maintain privacy about our wealth issues, put our SFO project on public display, or a combination of both?	Families tend to shield any information about their wealth. However, they have to compete in the talent market for resources and in the financial market for investment which calls for some public exposure.	"We need employer branding to recruit, but we don't like to say too much out there. Maintaining confidentiality and discretion are the family's cornerstones."

4. TYPES OF SFOs FOR FAMILIES IN BUSINESS

Given the enormous diversity of SFOs, it is crucial to set up a framework for understanding their differences and addressing their challenges. Based on the interviews conducted, **three main types of SFOs** have been pinpointed (see **Table 4**). This segmentation is not intended to be exhaustive or to suggest that all families should identify with any particular one. Indeed, in many cases, the SFOs are a combination of some or all of them.

Table 4. SFO types

	Generational SFO	**Investor SFO**	**Entrepreneurial SFO**
Prevailing Logic	**Family**	**Financial**	**Entrepreneurial**
Main goal	Its owners have a deeply rooted family business culture and preserving the legacy over multiple generations is a primary objective for them.	The focus is on efficiently managing the risk-return ratio with the family's financial wellbeing as a priority.	Its owners want to maintain their identity as a family in business.
Features	- Large, multigenerational families in business - Existence of the family business - Non-family SFO leadership.	- Diversity in the family profile but with few family generations. - Existence of the family business or partial liquidity event (sale of part of the family business). - Project with strong leadership exercised by a family member.	- Young families in business. - Total liquidity event (sale of the family business). - Family leadership supported by a person trusted by the family.
Stance on the dilemmas posed by setting up an SFO	-Prioritization of family objectives over individual ones -Focus on family tradition -Emphasis on privacy -Professionalization vs family control.	- Prioritization of individual goals over family goals. - Focus on diversification.	-Emphasis on family control over decision-making. -Prioritization of reinvestment over distribution of profits.
Comments	"A family office is, firstly, a means to preserve family culture and values; secondly, to pass on these two key components along with the family wealth to future generations; and thirdly, to teach these generations."	"We strive to meet the financial needs of a growing family by efficiently managing returns and risk to ensure long-term financial wellbeing."	"Our grandparents were entrepreneurs, and we have the soul of entrepreneurs, albeit not by creating but rather by investing in companies. If you put everything into financial investments and they go wrong, what example are you setting for your children."

REFLECTION EXERCISE FOR FAMILIES IN BUSINESS: WHAT IS THE MISSION OF OUR SFO?

The diversity of SFO types identified makes it essential for each family in business to consider the **purpose** underlying the set-up of their SFO before embarking on it.

The objective of this process prior to starting up the SFO is to enable the members of the family in business to agree on what the SFO's mission is.

Figure 4 lists a number of **questions that can guide families in business** when mapping out their SFO's mission.

Figure 4. Reflection process to define the SFO's mission

THE SFO's MISSION

STEP 1. Who are we?

THE FAMILY IN BUSINESS

- What is our history and how has it influenced our wealth?
- Who are the main **stakeholders** and what role do they play?
- What are our values as a family in business?

FAMILY WEALTH

- What is the current composition of our wealth?
- What is the estimated current value of our wealth?
- What are our main sources of recurring income and expenses?

STEP 2. What do we want?

PURPOSE OF OUR WEALTH

- What does wealth mean for our family?
- Who are we creating wealth for?
- What legacy do we want to leave as a family in business?

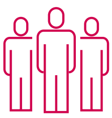
THE SFO'S OBJECTIVES

- What are the financial and non-financial goals we seek to attain?
- How are we going to measure the success of the SFO?

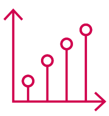
STANCE ON THE DILEMMAS POSED BY THE SFO

- Are we willing to take significant risks to obtain higher returns?
- Do we prioritize family versus individual goals?
- Do we want to distribute earnings or reinvest them?

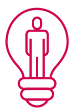
STEP 3. Which type of SFO do we identify with?



GENERATIONAL SFO



INVESTOR SFO



ENTREPRENEURIAL SFO

Once the SFO's mission has been agreed, the next step is to design the services it will render to the family in business, how the wealth will be invested, the legal structure it will take and the organization of its governance and management. Here the interviews revealed common features among the various SFO types identified. This finding underscores the critical importance of having a well-defined mission from the outset to ensure overall coherence in the SFO's set-up.

II. Designing the SFO: strategy, structure and decision making

1.
What services does an SFO provide and how does it provide them?

2.
What does an SFO invest in and how?

3.
How is an SFO structured and how does the family play a part in its management?

4.
How does an SFO organize decision-making?

5.
What is the size and composition of an SFO management team?

1. WHAT SERVICES DOES AN SFO PROVIDE AND HOW DOES IT PROVIDE THEM?

The interviews revealed that SFOs provide families with a wide variety of services that we have grouped into two areas (see **Figure 5**): **office** (related to wealth management) and **family** (related to catering for the family's needs).

When it comes to delivering these services, SFOs have to decide whether to do this in-house or outsource them. Both management models have advantages as shown in **Figure 6**. This implies that each family will have to find the right balance between these two areas.

Figure 5. Services provided by SFOs

OFFICE SERVICES	FAMILY SERVICES
FINANCIAL WEALTH MANAGEMENT Portfolio management, financial planning, risk management, etc.	**TAX AND SUCCESSION PLANNING** Wills and succession planning.
PROPERTY MANAGEMENT Purchase, sale and management of properties, etc.	**ADVISORY/ADMINISTRATIVE SERVICES** For family members.
PRIVATE EQUITY MANAGEMENT Seeking investment opportunities, fund selection, managing investees, etc.	**CONCIERGE SERVICES** Personal property management, art, estates, domestic service, etc.
LEGAL AND TAX ADVICE Legal and tax advisory services to ensure regulatory compliance and optimize tax liabilities.	**FAMILY GOVERNANCE** **TEACHING NEW GENERATIONS**

Figure 6. In-house and outsourced services

IN-HOUSE SERVICES

CONTROL OVER OPERATIONS AND PROCESSES

CONFIDENTIALITY AND INFORMATION SECURITY

GREATER CUSTOMIZATION TO MEET SPECIFIC REQUIREMENTS

OUTSOURCED SERVICES

ACCESS TO EXPERTS AND SPECIALISTS
No need for in-house training

FLEXIBILITY TO UPSCALE SERVICES
Based on changing needs

REDUCTION OF FIXED COSTS AND SIMPLIFIED RESOURCE MANAGEMENT

FOCUS ON THE FAMILY BUSINESS BY DELEGATING ROLES

MITIGATING LEGAL AND FINANCIAL RISK
By sharing responsibilities with external suppliers

SFO services by type

Table 5 shows there is considerable diversity between the various types of SFOs in terms of which services are provided and how they are provided.

The primary variables for the survey participants when deciding which office services to provide and how to provide them were finding synergies and minimizing costs. **All the SFOs outsource tax and legal roles** that have fewer synergies with the SFO's operations, yet there are also differences between the different types of SFOs in the extent to which they outsource other services. For example, entrepreneurial SFOs prioritize family control, so in most cases they choose in-house office services. By contrast, investor SFOs tend to downscale their structure by outsourcing many administrative services in their quest for efficiency.

Family services are mostly provided in-house and their scope varies greatly across the three types, which reflects the goals pursued. Thus, for instance, services fostering family unity are especially important in generational SFOs and are usually provided in-house, albeit sometimes supported by an MFO.

Table 5. Office and family services by SFO type

	Generational SFO	Investor SFO	Entrepreneurial SFO
OFFICE SERVICES			
Financial wealth management	**In-house**, led by external professionals with high outsourcing (funds, banks, MFOs).	**In-house**, led by a family member or an outsider with extensive financial knowledge.	**In-house**, led by a family member but with extensive support from external experts.
Property management	Mostly **in-house.**	**Outsourced.**	Combination of both.
Private equity management	**In-house** with control over some direct investments.	**In-house** with external support.	**In-house.**
Legal and tax advice	**Outsourced.**	**Outsourced.**	**Outsourced.**
FAMILY SERVICES			
Tax and succession planning	Tax, **Outsourced**; succession, **In-house.**	**Not provided.**	Tax, **Outsourced**; succession, **In-house.**
Advisory/ administrative services	**Outsourced.**	**Not provided.**	**Outsourced.**
Concierge services	**In-house.**	**Not provided.**	**Outsourced.**
Family governance	**In-house.**	**Not provided.**	Not very formalized.
Teaching the new generations	**In-house.**	**Not provided.**	**In-house** with external support; very young generations.

2. WHAT DOES AN SFO INVEST IN AND HOW?

The interviews revealed that families make **two major decisions** regarding their investment strategy: whether to invest their wealth jointly or separately, and what their asset allocation will be (how they will distribute their investment portfolio between the various types of assets available).

Investing wealth jointly or separately

This decision is closely related to the **individual vs. family goals** dilemma and involves deciding whether the SFO is a service provider that coordinates management of the wealth of several individuals, whether it designs and implements a joint family wealth investment strategy, or whether it pursues a combination of both. In other words, it is a matter of deciding which family assets will be managed by the family office and which will not.

Table 6 shows that this strategy varies by type. For example, in generational SFOs, a single investment strategy is pursued for joint wealth while each family member manages their own wealth individually. In contrast, in investors SFOs, there is a preference for separating the wealth of each branch or individual, though retaining joint investment options in specific cases.

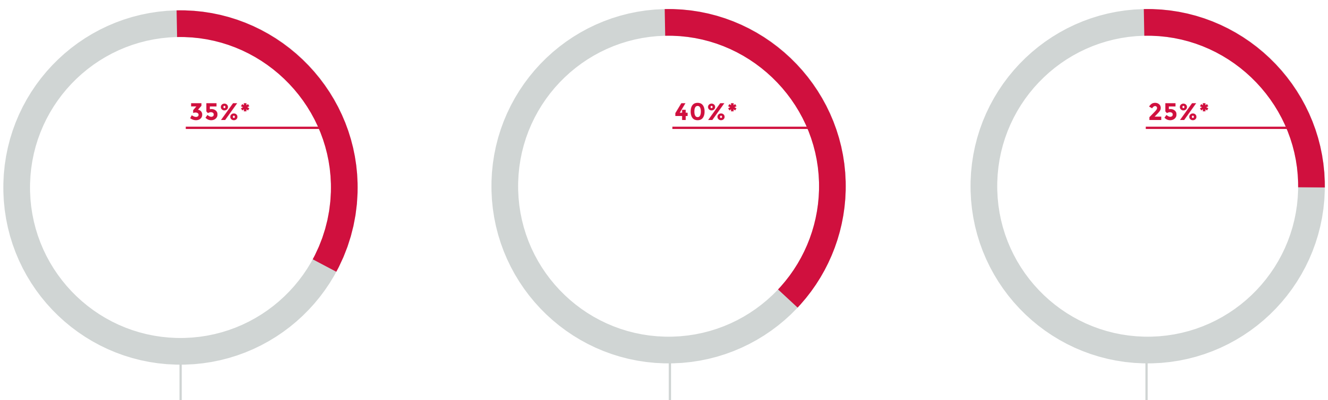
Table 6. Joint or separate investment by type

	Generational SFO	Investor SFO	Entrepreneurial SFO
Joint or separate investment	Joint investment of wealth and personalized care for personal wealth or by family branches.	Separate investment of the wealth of each of the branches/ individuals with the option of joint investment in specific cases.	Joint or separate investment and co-investment options depending on the alignment of interests between family members.
Comments	"We have three investment groups in the SFO, one for each family branch, but here we pursue a single trading and investment strategy. This joint wealth is what came from the inheritance of the family business. Each family member also has their own personal wealth, either personally and/ or through companies that have been set up."	"Wealth has to be separated in a family; that's the key. And we come together at the bottom, not at the top. At the bottom it's in managing or holding a stake in a company; but at the top, in ownership, the wealth part needs to be kept separate as much as possible. Why? Because this means that in the wealth part you can do whatever you want without having to check with everyone else and this prevents conflicts."	"We've all been in business, each of us in our own right, so we invest in assets and business initiatives that interest us personally and seem attractive to us. We then offer the others the chance to join in."

Asset allocation

The SFOs interviewed allocated the assets in their strategic portfolios to **three main segments**: property investment, financial investment, and private equity investment (see **Figure 7**).

Figure 7. Investment types (asset allocation)[7]



Financial investment	Property investment	Private equity investment
Investment funds	Residential properties	Direct investments
ETFs	Business premises	Private equity funds
Shares	Land	Venture capital funds
Bonds	Logistics facilities	Commodities

*Percentage of total wealth.

[7]In the case of SFOs that had an active family business, the respondents were asked to perform this asset allocation without including this family business.

"You need a portion of property to generate income on certain capital gains, financial assets to diversify and provide quick liquidity, and the rest can go to corporate which is what generates the most value, but it does so in the long-term."

There are two clear investment patterns among the SFOs surveyed in relation to this asset allocation:

1. High exposure to property investment: on average, the SFOs surveyed allocated 40% of their total wealth to real estate investment.

These figures bear out the high exposure of Spanish SFOs to real estate investment compared to their counterparts in other countries. A recent report on FOs in Spain shows that in 2023, FOs with up to €250 million in assets under management earmarked 44% to real estate investment as opposed to 13% in other countries.[8] The gap was even wider among large FOs with more than €500 million (56% vs. 10% in other countries). This report also suggests that the main reason for investing in property is to preserve capital, which was also confirmed in our interviews. Additionally, many of the interviewees alluded to the tax framework that favors this type of investment:

"What does the theory say? Much less property and much more financial. The thing is that here there is a big issue: taxation. The book will always tell you not to invest or to stop investing because of tax, but then the reality comes back to bite you. In Spain, lawmakers are pushing family businesses to invest in investment properties. That is the reality."

2. A strong commitment to the growth of private equity investment. Most of the owners and managers interviewed said they planned to increase their exposure to this type of assets in the coming years.

The growing interest in private equity investment is consistent with the results of recent studies on family office investment trends worldwide.[9] Spain is no exception. A PwC study conducted in 2022[10] singled out the nation as the fastest growing country for private equity transactions by family offices. The main reasons for this trend include the quest for long-term returns and greater control over investments.

In terms of how to invest, although fund investment is generally less risky, many family offices prefer direct investment in companies. While this preference can be ascribed in part to the fact that many funds call for a high investment ticket which is unaffordable for some SFOs, there are other key drivers that account for this choice (see **Table 7**).

---

[8]Centro de Excelencia de Empresa Familia de Deloitte y Family Office Managers Meetings, *II Estudio de Family Office en la Península Ibérica*, 2023, https://perspectivas.deloitte.com/estudio-de-family-office-en-la-peninsula-iberica.

[9]JP Morgan, *Global Family Office Report*, 2024; Citi Private Bank, *Global Family office Survey insights*, 2024.

[10]PwC Family Offices, *Family Office Deals Study*, 2022.

Table 7. Additional reasons for direct investment in companies

REASON FOR PREFERENCES IN DIRECT INVESTMENT	SFO TYPE	COMMENTS
Teaching new generations as entrepreneurs/ investors through their involvement in managing the companies in which they invest.	Generational	"We see direct investing as a laboratory for training our children. We invest and manage companies directly not only for returns but also because it will help them to learn the everyday difficulties of earning money."
Enhancing the financial skills of the management team members, as direct exposure builds knowledge of target companies and improves the SFO's image as an investor with private equity firms, enabling them to make better co-investments.	Investor	"Having a portion of your wealth in direct investments has many advantages as it nurtures the team and makes you a better investor. When you talk to funds, they see you differently than what they call simply allocators, such as pension funds, which are much more passive."
Generating an impact as families in business by making more tangible investments and being more actively involved in the companies in which they invest.	Entrepreneurial	"It's a little irrational but I think it's inevitable because there's a bias. We are entrepreneurs and we look for where you can make an impact. On the financial side you are more passive."

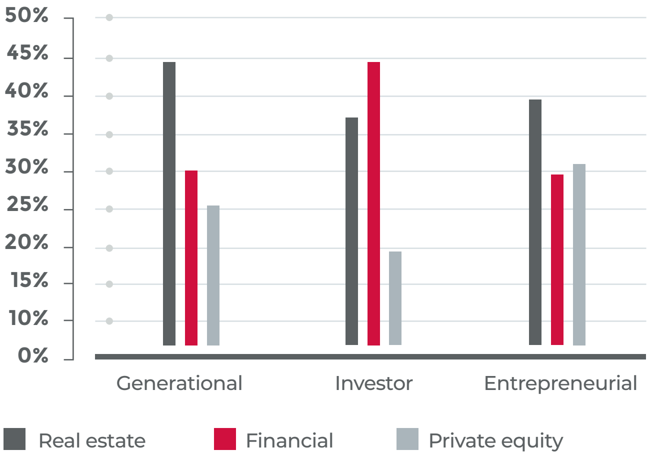
Asset allocation based on types

Figure 8 shows a clear pattern in investments based on SFO type. Investor SFOs assign the greatest importance to investments in financial markets based on their mandate to optimize the risk-return and liquidity trade-off and, in turn, attach the least importance to private equity investment. In explaining this distribution, the owner of an SFO classified as an investor argued that:

> "We decided to invest in listed financial markets and not in private equity because we feel that we have private equity with the family business. We are highly innovative and keep getting into new businesses in the company as part of our operations. Hence on the investment side we decided to prioritize liquidity."

Meanwhile, entrepreneurial SFOs invest most heavily in private equity, also consistent with their business Logic and their goal of maintaining their identity as families in business, while generational SFOs give more importance to their property exposure, reflecting their capital preservation strategy. Finally, some entrepreneurial SFOs have a high percentage of property assets but this is because they run them as a business rather than as an investment.

Figure 8. Asset allocation by SFO type



These differences again underscore the importance of fully grasping the SFO's mission before making a proposal to allocate its assets.

3. HOW IS AN SFO STRUCTURED?

Another key decision in the design of the SFO is its "shell", i.e. the legal and corporate framework through which it will operate and conduct its investments.

Each structure has its own advantages and tax and legal considerations which means it is crucial to select the one that best suits the family's needs and objectives. Nevertheless, even if the design framework takes tax considerations into account, these should not be the sole deciding factor:

> "We firmly believe in diversification as a core principle for managing risk and return, so we assess the available tax needs to adapt to those of each investment. We use these tools strategically but do not see them as the basis of our investment policy."

4. HOW DOES AN SFO ORGANIZE DECISION-MAKING?

Decision-making in an SFO is highly complex as it involves **managing the relationships between the four areas that make up its ecosystem: family, ownership, investments and business operations.**

Consequently, the governance mechanisms used by the interviewees include not only boards of directors but also specific forums to regulate relations between the family and the SFO (family council) and to manage investment decision-making (investment committee). Moreover, in addition to drawing up agreements regulating the relationship between shareholders and the company (shareholder agreements) or between members of the family in business (family protocol), some also have a formal investment policy statement (IPS) setting out the family in business's investment policy.[11]

Figure 9 shows that the majority of respondents have a board of directors while a very high percentage (55%) have a family protocol. A family protocol and a family council are more common in generational SFOs (see **Table 8**). Nonetheless, it is striking that despite being organizations engaged in family wealth management, only 40% have an investment committee and less than 20% have a strategy committee or an IPS. These governance bodies are more common in investment SFOs than in other SFOs in keeping with their more marked financial profile.

[11] See Appendix 3 for a full description of these governance mechanisms and rules.

Figure 9. SFO governing bodies and agreements

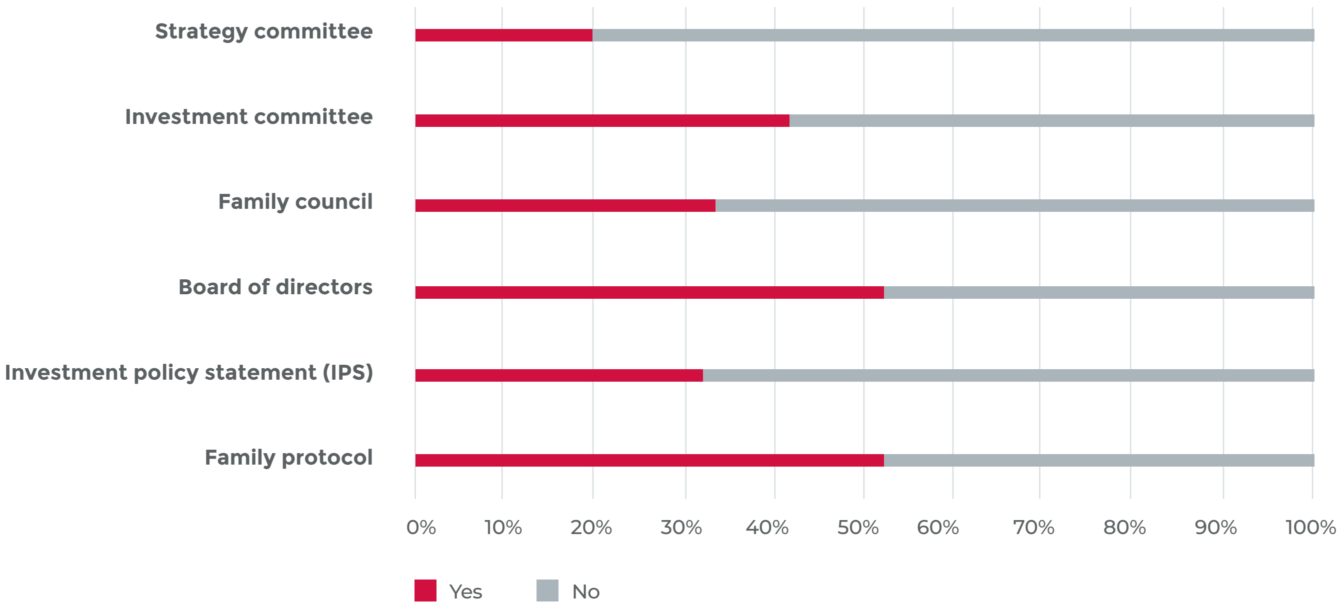


Table 8. Governing bodies and agreements by SFO type

	Generational SFO	Investor SFO	Entrepreneurial SFO
Investment committee	Might	Yes	Might
Family council	Yes	No	Might
Board of directors	Yes	Yes	Yes
Investment policy statement (IPS)	Might	Yes	No
Family protocol	Yes	No	Might

5. WHAT IS THE SIZE AND COMPOSITION OF AN SFO MANAGEMENT TEAM?

As noted in the description of the sample, the data gathered through the interviews show that in the case of SFOs in Spain, the SFO does not employ more than five people. Specifically, only three of the SFOs interviewed had a management team larger than 20 people.

Table 9 shows the composition and average size of teams by SFO type. Generational SFOs, with more complex wealth and families, tend to have the largest and most varied teams. The other two types usually have an expert in a specific area that is crucial to the smooth running of the SFO along with administrative staff members who handle management tasks and family services.

Table 9. Size and composition of the management team by SFO type

	Generational SFO	Investor SFO	Entrepreneurial SFO
Size	Large; usually more than ten employees.	Small.	Medium-sized.
Makeup	Mostly external, with a professional manager trusted by the family.	Family/non-family leader with financial expertise.	Mostly family members.
Staff	Expert advisors in family dynamics.	Mostly administrative.	Experts in key areas.

REFLECTION EXERCISE FOR FAMILIES IN BUSINESS: HOW DO WE DESIGN OUR SFO?

Analysis of the SFO and its relationship with the identified types reveals that the SFO's purpose strongly shapes its design, which underlines the need to achieve consistency between the two. **Figure 10** summarizes a reflection process that can help families to envision the framework of their SFO, if they have previously clearly set out its purpose.

Figure 10. Reflection to map out an SFO framework

DESIGNING THE SFO

HOW MUCH IS THE FAMILY EXPECTED TO GET INVOLVED IN THE SFO'S GOVERNANCE AND MANAGEMENT?

SERVICES

- Which services do we want to provide?
- Which ones will be provided in-house and which ones will be outsourced?
- How do we measure the quality and success of the services provided?

INVESTMENTS

- Which asset classes and sectors are we most interested in and why?
- What investment time horizon do we have?
- Do we invest wealth jointly or separately?

GOVERNANCE

- How do we organize decision-making?
- What mechanisms do we need to keep the family informed and engaged?

TEAM

- What competencies and skills do we need in our team to accomplish our objectives?
- How will we recruit, retain, and motivate key talent within the SFO?

STRUCTURE

- What legal framework is most appropriate for our SFO?
- Which legal and corporate structures will we use to invest?
- How will the chosen structure impact the taxation of our investments and family wealth?

Part 2

Starting up the SFO

Once the SFO's mission has been identified and its design framework has been crafted, it is time to get it up and running. The interviews conducted for this study revealed the main challenges faced by SFO owners and managers in aligning the SFO's mission **with the structure created to achieve its purpose.**

I. What are the challenges of managing an SFO?

1.
Agency problems

2.
Investment biases

3.
Efficient size of the management team and attracting external talent

4.
Bringing in the new generations

1. AGENCY PROBLEMS

These problems arise when there is a **conflict of interest** between the parties involved in the ownership and management of an organization. In the case of SFOs, as in family businesses, these conflicts may emerge between shareholders and management, and also between members of the family in business.

Because SFOs are private entities, some of these conflicts of interest are compounded by the fact that SFOs are not held accountable in the same way as other financial institutions because the family itself is the only client. This lesser accountability often means they do not set clear investment goals, and this makes it difficult to align goals and track and evaluate investment performance while also leading to investment bias, as we will see in the next section.

Figure 11 sets out the main agency problems that come up within SFOs.

Figure 11. Main agency problems in SFOs

Agency problems in SFOs

MISALIGNMENT OF GOALS AMONG FAMILY MEMBERS

The absence of a common vision and differences in risk profiles between family members can trigger conflicts over how to manage wealth and investments.

"Some of us are more conservative and prefer to protect the family's capital, while others prefer to take risks in search of higher returns. Coming to an agreement on investment strategy is a challenge."

MISALIGNMENT OF GOALS BETWEEN EXTERNAL MANAGERS AND THE FAMILY

Outsourcing decision-making to external managers may result in decisions that prioritize the managers' interests over those of the family if they are not properly aligned.

"Our concern when hiring external managers was to make sure that they were aligned with our interests. They need to understand that this is not like running a private equity firm or a bank, that there are a lot of family dynamics at play here that condition long-term decision-making."

ASYMMETRIC INFORMATION PROBLEMS

Disparity in access to information among family members or between family members and external managers can generate perceptions of insufficient transparency and mistrust that hinder decision-making.

"In SFO management, information is not only power but also responsibility. However, its unequal distribution among family members may tip or upset the balance. Here, the key to success is transparency."

DUAL AGENCY PROBLEMS

Delegation of authority from the owner family to the SFO's senior management and then to subordinate asset managers can make it hard to align interests among the parties involved.

"Choosing a private equity fund brings with it complex dynamics as I often find myself playing the role of intermediary between the family and the manager of the private equity fund we are considering hiring. Aligning the interests of the two is not always straightforward."

2. INVESTMENT BIASES

Discussions with the interviewees have exposed the presence of investment decision-making biases in many of the SFOs (see **Figure 12)**. As noted by the behavioral finance literature, a large portion of these biases are shared by other types of investors.

As in the case of agency problems, the private status of the SFO and its variety of goals heightens some of these biases and spawns others that are unique to SFO investing.

Figure 12. Investment biases

Haste when investing

Investing in haste without thoroughly considering the strategy and potential associated risks beforehand can lead to mistakes.

"I was too hasty in investing. The mistake is to want to continue at the same speed as when we were running the family business instead of saying: this is something new."

Excessive focus on the tax bill

Excessive emphasis on taxation in investment decisions can lead families to forego profitability and take on greater risks in the long term.

"Setting up tax vehicles may be advantageous for you today, but with more freedom you could achieve a long-term asset allocation with a better risk-return balance. We try to strike a happy medium."

Competency bias

Overestimating wealth management skills leading to building complex investment portfolios with insufficient resources to manage them effectively.

"It's understandable that SFO owners with their track record of business success tend to be confident in their wealth management skills, yet sometimes this leads them to underestimate risks. It's my job as an outsider to get them to see this and work together to ensure investment decisions are balanced."

Loss aversion

Investors' inclination to make more conservative decisions or avoid risks to prevent losses is especially pronounced in the case of SFO owners who put their family's wealth at stake. This bias can lead them to take an overly cautious approach and overlook profitable investment opportunities.

"We try to invest very conservatively. If one day the children decide to go their own different ways, you cannot get involved in really complicated things."

This loss aversion bias would also explain why overall SFOs prefer to maintain low levels of borrowing.

"In our investments, we target the yield rather than the rate of return (IRR). This might be seen as a mistake by some financial experts. We prefer to use our own resources, avoiding financial leverage as much as possible. This frees us up and enables us to be flexible in our offers."

Family bias

This bias shows up in a tendency to invest in projects proposed by people close to the family in business, especially in investment opportunities suggested by relatives and friends.

"One mistake is not being strict enough with favors or with things that come through friends or with commitments. You have to set very clear investment objectives so as not to succumb to this kind of favoritism."

3. EFFICIENT SIZE OF THE MANAGEMENT TEAM AND ATTRACTING EXTERNAL TALENT

All the interviewees agreed that another of the major challenges in managing an SFO is how difficult it is to attract external talent.

Table 10 shows the main reasons for this.

One problem in the general challenge of attracting talent in SFOs is **the succession of the non-family CEO** when management is outsourced to an external manager. This external manager has a very specific profile that makes it difficult to replace them (see **Figure 13**). In turn, this unique profile is clearly illustrated by the way the managers interviewed defined themselves:

"Those of us who work in a family office see ourselves as 'entrepreneur employees'. We embrace the company as if it were our own, engaging in it completely, as we are directly linked to the capital and thus experience both the concerns and the challenges. We experience the best and the worst of being both employees and entrepreneurs."

—

"Families in business are looking for a hybrid between a Warren Buffett and a butler, someone who can handle everything from a three-hour residents' meeting to talk about the elevator to outperforming Yale's endowment."

Table 10. Difficulties in attracting external talent

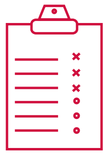
1	2	3
Limited vertical promotion opportunities within the SFO structure, making it hard to offer a career plan.	**Low visibility of the SFO** which chooses to have a low profile for confidentiality reasons. This can make it difficult to attract external talent.	**Difficulty in offering long-term incentives** due to the SFO's family and wealth background.
"Many people who come from banking or very structured funds only see the pyramid. And they think: 'In two years I'm going to be an associate; in three years, senior, and so on... So, what's the career here?"	"Unlike large corporations, our SFO operates more discreetly and has limited visibility in the labor market. This hampers our ability to attract talent as it restricts us to our immediate surroundings."	"We can't ask someone to name us as heirs because it would be partaking in their children's inheritance, and I don't want to be an heir with their children either." — "The incentives conversation is a tough one because of the closeness."

Figure 13. Non-family manager profile

TRUST AND VALUE ALIGNMENT WITH THE FAMILY

Individuals absolutely trusted by family members with financial knowledge and a solid track record, who often come from the family business and have years of experience in the SFO.

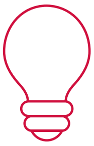
"You have to find a person who has average legal, tax, and financial knowledge as well as an emotional and personal profile that has a connection with you, who you trust. From then on in, you have to see whether their professional career and your needs can converge."



MULTITASKING AND VERSATILITY

The non-family CEO is expected to lead financial tasks and also family service delivery, displaying versatility in their management skills and abilities.

"In the same day I might be sitting down with a bank to negotiate tens of millions of euros in financing and then in the afternoon I'm meeting with an engineer because we're going to invest in a wind energy project."



ENTREPRENEURIAL SPIRIT

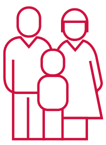
They must have a robust entrepreneurial mindset and be able to identify and pursue business opportunities within the SFO.

"They have to be entrepreneurial people. People who don't want to work in a firm that has thousands of employees and who love to be hands-on, love to butt in, be creative, and bring business opportunities."

ABSOLUTE DISCRETION

Given the confidential nature of financial transactions and the sensitivity of working with high-net-worth individuals, discretion is essential for the SFO's CEO.

"Discretion is extremely important. People who have high net worth might not be easily accepted by those of us who have more normal finances. Well, there are people who are not used to seeing that, who feel uncomfortable when they see or are close to those kinds of finances and cannot accept it and judge them."



UNDERSTANDING FAMILY DYNAMICS

The person at the helm of an SFO must have the ability and sensitivity to understand and deal with complex family dynamics.

"Dealing with each family member's personality is a challenge. The books I've been reading for the last 10 years have all been about psychology."

4. ATTRACTING THE NEW GENERATIONS

The interviews revealed the **key role** that members of the new generations are playing in setting up and growing SFOs, yet also the huge challenge some SFOs face in triggering interest and engagement in them (see **Figure 14**).

Figure 14. Educating and attracting the new generations

+	−
In some cases, the **SFO project is driven by a member of the next generation** who sees the need to organize and professionalize the management of the family's wealth: "My father had no financial training or time to devote to wealth management. I had been studying abroad and I had professors who saw selling companies and managing wealth as something quite normal. And, well, I liked this aspect more than the family business. I persuaded my family to set up the family office and I showed them that it was possible to do things, to separate the two activities."	In other cases, it also underscores the **challenges of attracting new generations** to become actively involved in the SFO, with many interviewees pointing to these younger generations' lack of interest in or commitment to the SFO: "As the youngest member of the Board, we have the challenge of generational handover amid growing disengagement from the next generation. It's essential to find someone who can oversee and keep our capital together, who believes in the added value of keeping it bundled rather than dispersed."

Regardless of the role that the new generations are playing, one of the main shared concerns among all the interviewees is **how to educate and teach them**; these are generations that as a rule have been born in well-off environments:

> "The big challenge is how to educate them so that they don't have the feeling that they have everything on a plate. It's very difficult when you have children who from the age of 12 or 14 know that their family has a huge fortune. Whether you like it or not, you don't have a culture of graft and hard work. You have to start thinking about when you start giving them money and, in our case, for example, maybe we started too early."
>
> –
>
> "I'd like to teach and educate the members of the next generation as well as possible so they can be independent, but at the same time I want to give them a decent position in life."

REFLECTION EXERCISE FOR FAMILIES IN BUSINESS: WHAT ARE OUR SFO'S MAIN CHALLENGES?

Once the SFO's mission and value proposition have been set, families must think about and identify the main challenges they face in implementing and running their SFO (see **Figure 15**).

Figure 15. Reflection on the SFO's main challenges

THE SFO's CHALLENGES

IDENTIFY THE MAIN CHALLENGES WE FACE

1. MISALIGNMENT OF GOALS

- What is preventing us from achieving a common vision?

2. CONFLICTS OF INTEREST

- What are the conflicts of interest and how do we manage them?

3. INVESTMENT BIASES

- What are the biases that tend to appear in our investment decision-making process and how do they affect us?

4. ATTRACTING AND RETAINING TALENT

- Which factors constrain our ability to attract and retain talent in the SFO?

5. BRINGING IN THE NEW GENERATIONS

- What difficulties do we come across in aligning the expectations of the new generations regarding the SFO?

II. How can these challenges be successfully managed?

1.
Governance and rules for shared wealth

2.
Defining the investment strategy: the investment policy statement (IPS)

3.
Mainstreaming technology in SFO decision-making

4.
Incentives for attracting and retaining talent

5.
Attracting and training the new generations

6.
Forging partnerships and collaborations

7.
Leveraging the SFO's competitive advantages

How can these challenges be successfully managed?

In this section and drawing on the comments made by the interviewees and the experience gained in family advisory services, we suggest a number of best practices for successfully tackling the challenges of managing a SFO (see **Figure 16**).

Figure 16. Best practices in managing an SFO

1.GOVERNANCE AND RULES FOR SHARED WEALTH

Successfully navigating many of the challenges of managing an SFO calls for devising **robust governance** to mitigate key conflicts of interest and ensure effective decision-making. As shown in **Figure 17**, this entails defining specific governance mechanisms in three distinct but interrelated areas of governance: family, investment, and corporate governance.[12] It also involves drawing up shared wealth agreements and rules in all three areas.

Ultimately, the effectiveness of governance in an SFO should not be measured by the number of councils, boards or committees in place but rather **by their ability to resolve or mitigate the challenges intrinsic to SFO management that have been identified**. As many interviewees pointed out, these mechanisms should not impact the SFO's flexibility in making investment decisions since it is precisely this flexibility that is a competitive advantage for the organization:

> "One thing we've learned is that we are very flexible, very fast. If there is an opportunity today that calls for a swift decision, the day after tomorrow there's an ad hoc investment committee to analyze it. When you have a clear strategy, you can be very quick in ruling things out, and when there is a very special opportunity, we are quick to grab it. Here we bump into each other constantly in the hallway and we talk several times every day."

Besides the presence or absence of such governance mechanisms and agreements, the interviewees picked out several best governance practices as summarized in **Figure 18**.

[12]See **Appendix 3** for a full description of these governance mechanisms and rules.

Figure 17. SFO governance

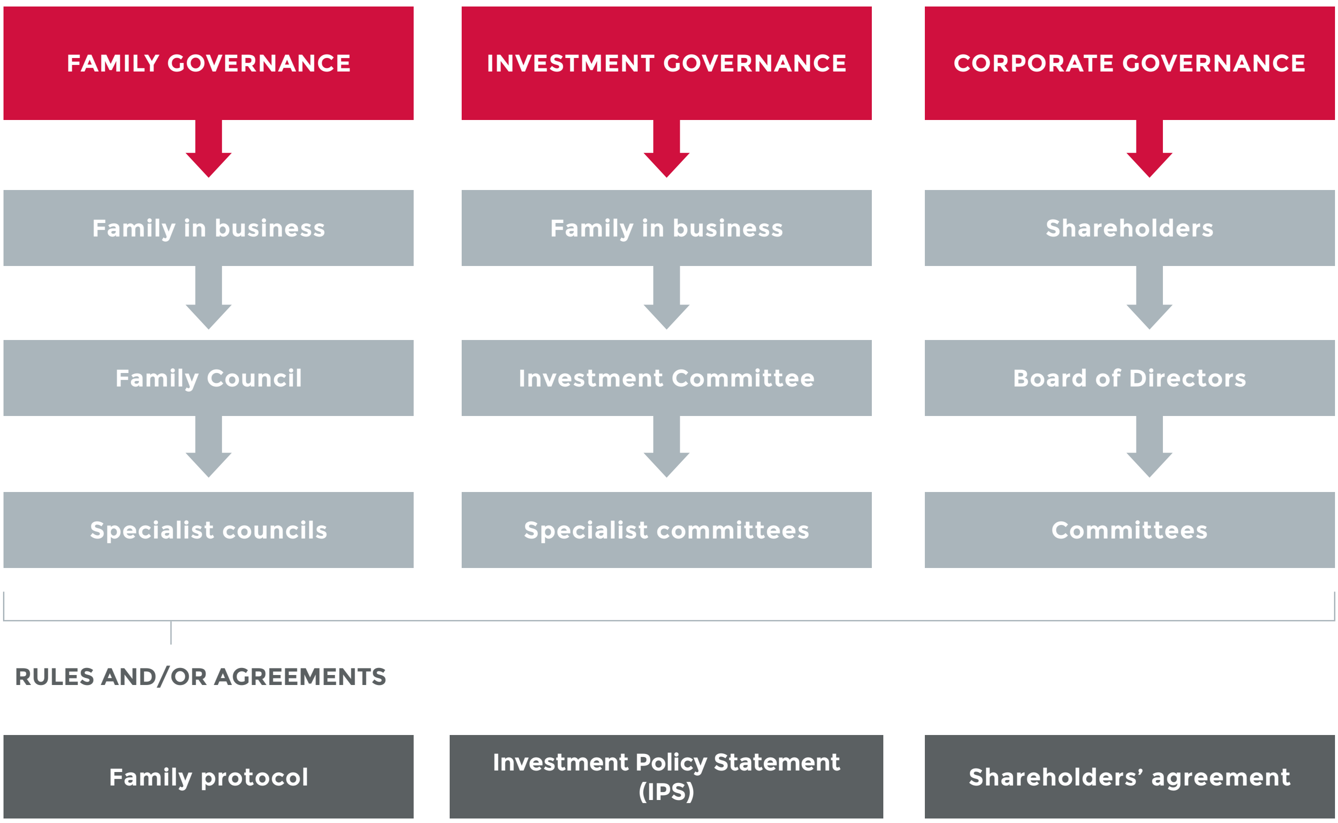


Figure 18. Governance best practices

1. Inclusion of independent board members

"We've worked hard to have a Board of Directors with external members from the outset. This has helped us to ensure transparency and validation in our decisions. Independent members bring an objective perspective and ensure that no odd decisions are made. They also lend validation to internal proposals."

2. Key role of the family council

"We try to teach all family members about the concept of being responsible shareholders or future shareholders through the family council. Everyone should have the freedom to decide but everyone should also understand that this will be theirs someday and this entails responsibilities. We also hold specific council meetings where we talk about property; in others, we discuss financial investments; and in others, we talk about private equity interests."

3. Investment committee made up of experts in the various investment areas

"We have a robust decision-making process that involves a quarterly Board of Directors meeting and an investment committee. The latter is crucial for deciding on new financial and direct investments. This committee has evolved significantly over time from a family group to include external experts which has bolstered our analytical approach and professionalized the decision-making process. We are proud to say that this committee is the body with the greatest clout in our operations."

4. Family protocol for aligning expectations among family members

"While we do not engage in the day-to-day running of the business, we are all on the Board of Directors. This is set out in our family protocol."

The importance of having a formally established dividend policy is stressed by the SFOs interviewed as one of the many aspects regulated by the protocol:

"Implementing a dividend policy is critical because it reduces tension. It helps manage family members' expectations as well as striking a balance between capital growth and the liquidity needs of owner members."

2. DEFINING THE INVESTMENT STRATEGY: THE INVESTMENT POLICY STATEMENT (IPS)

Defining an investment strategy that clearly spells out the investment goals and how to invest and track investments **helps to mitigate many of the conflicts of interest as well as the investment biases identified.** This investment plan takes the form of an IPS which should contain a number of key components, as shown in **Figure 19**.

Figure 19. IPS of an SFO

01

Establish the investment policy

1. **Define the family's investment goals.**
2. **Set investment parameters (risk, time horizon, markets, assets, sectors, etc.).**
3. **Decide on responsibilities and structures.**
4. **Specify how often the investment portfolio will be fine-tuned.**

02

Define the asset allocation

1. **Identify the family's investment preferences.**
2. **Examine the expected returns of various asset classes, considering different scenarios.**
3. **Design different asset mixes.**
4. **Pick the best asset mix based on the family's goals.**

03

Build the investment portfolio

1. **Set rules to build the portfolio (exposure limits, terms, importance given to tax efficiency, etc.).**
2. **Select managers and portfolio content.**

04

Track investment performance

1. **Roll out reporting systems that consolidate information and provide comparative data for each investment category.**

When drawing up the IPS, there are two key best practices:

Designing a bespoke investment strategy

A unique feature of the IPS in the SFO of a family in business is the flexibility to design "bespoke" strategies to match the goals of individual family members. Faced with the problem of reconciling the risk profiles and goals of all family members, some SFOs **pick an IPS that blends joint investment of the family's wealth with individual approaches for personal wealth or by family branches:**

> "Having it all together doesn't work. In other words, there's what we call the common group, and that is the two branches, but then there is the branch 1 group and the branch 2 group. If you look at the asset allocation of the common group and also the asset allocation of the two branches, they are very similar. What are differences between them? Well, 'I want a little bit more real estate, because I like real estate more', 'I want a little bit more risk, because my son likes private equity more', but they are slight differences in the two portfolios that are not common to the two branches."

These "bespoke" strategies also seek potential synergies in co-investment. For example, when investing in private equity—which sometimes requires high entry tickets—it may make sense to invest jointly:

> "In the end you have to ask yourself when it makes sense to join forces. Joining forces doesn't bring you much when buying shares in Iberdrola or Telefónica or when buying a commercial property in a city, whereas if you want to get into private equity, big projects or to do things with a higher risk profile, joining forces does help and is an advantage."

The importance of considering impact investing in asset allocation

Although impact investing is not a predominant trend in the case of the SFOs interviewed, globally this type of investment is gaining more and more traction in financial circles. According to the Global Impact Investing Network (GIIN), the impact investing market has experienced significant growth in recent years, reaching an estimated size of more than US$1.164 trillion in 2022.[13] This increase demonstrates an increasing interest among investors in channeling their capital into companies and projects that generate a positive social or environmental impact in addition to earning financial returns.

For families in business, factoring impact into their asset allocation not only makes sense from an ethical and moral perspective but can also yield major benefits across a number of dimensions (see **Figure 20**).

Figure 20. Benefits of impact investing

ALIGNMENT WITH THE SFO'S PURPOSE

SFOs often seek investments that align with their values and goals. Many of these families are firmly committed to social responsibility and sustainable development, and impact investing provides them with the chance to channel their resources into companies and projects that promote these types of causes.

NEW INVESTMENT OPPORTUNITIES

Impact investing can be a profitable long-term strategy. As awareness of social and environmental issues increases, so does the demand for goods and services that address these concerns.

ATTRACTING AND EDUCATING THE NEW GENERATIONS

Younger members of families in business tend to be more attuned to social and environmental issues. Impact investing can therefore be an effective means of attracting and retaining the interest of the new generations, thus ensuring the continuity of the family legacy. Furthermore, engaging in this type of investment can be an educational tool for younger family members by instilling values of commitment and responsible ownership.

[13] Dean Hand, Ben Ringel, and Alexander Danel, *GIINsight 2022, Sizing the Impact Investing Market*, GIIN, 12 October 2022, https://thegiin.org/publication/research/impact-investing-market-size-2022/.

3. MAINSTREAMING TECHNOLOGY IN SFO DECISION-MAKING

SFOs must be mindful of the challenges posed by managing asymmetric information and the need to make decisions anchored in accurate and timely data, and therefore have to invest in technological tools that make it easier to consolidate and present wealth information accessibly. Technology not only **improves operational efficiency and the ability to track investments** but also **enhances the family's sense of ownership** by encouraging shareholders to keep up to speed and feel proud of belonging to a common project (see **Figure 21**).

In this area, artificial intelligence (AI) is becoming a primary enabler for SFOs, especially in terms of reporting and investment tracking, by automating key processes such as financial and operational data gathering, analysis, and presentation. Its predictive and prescriptive analytical capabilities also enable SFOs to anticipate market trends, spot investment opportunities, and proactively mitigate potential risks.

SFOs ought to thoroughly evaluate the technologies available in the market, selecting the solutions that fit in with their unique needs. Strategies to avoid making poor decisions when mainstreaming technology include those shown in **Figure 22** below.

Figure 21. Technology: in-house or outsourced tools

SOME SFOS HAVE IN-HOUSE TOOLS

"Reporting is not just another task for us; it is a fundamental part of our management. We use tools to consolidate our investment information in real time. Although this process is complex, it's crucial to keep us informed and make decisions based on up-to-date data."

OTHER SFOS RELY ON MFOs AS EXTERNAL PROVIDERS

"We meet with the managers at least twice a year, although we also get quarterly information on virtually all positions. We work with an MFO to process all that data; this is put into a database together with the managers' reports and this enables us to generate a series of reports that help us make decisions."

Figure 22. Technology solution initiatives

PARTNER WITH ESTABLISHED TECHNOLOGY PROVIDERS

Teaming up with experienced vendors helps circumvent initial hurdles and benefit from highly efficient AI-driven tools. It also increases the likelihood that the solutions chosen will align with the specific needs of the practice.

PRIORITIZE DATA PRIVACY AND SECURITY

Since the information handled by SFOs is sensitive, they need to prioritize data protection in order to maintain security and confidentiality when managing their wealth. This includes implementing strict security protocols and access controls.

4.INCENTIVES FOR ATTRACTING AND RETAINING TALENT

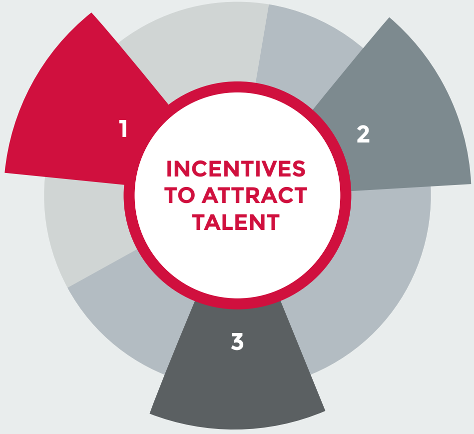
All the interviewees acknowledge that while family management of the SFO provides a greater degree of control over investment decisions, external managers bring specialized expertise, access to more diversified investment opportunities, and more professional risk management. This helps to circumvent many of the investment biases identified above.

> "We've built a team in which we, the members, trust the decisions of that team; they enable us to step away from the comfort of a family because we're confident that our advisors have sufficient judgment and control over our investments to undertake them."

At a time when recruiting talent is proving to be a challenge, SFOs are adopting diverse strategies to attract and retain professionals through compensation packages and also by offering rewarding and meaningful work environments. They often devise highly creative tools to retain external professionals given the ineffectiveness of traditional mechanisms such as vertical promotion and stock ownership.

Best practices for attracting and retaining talent in SFOs identified during the interviews include those shown in **Figure 23.**

Figure 23. Best practices for attracting and retaining talent in the SFO



1 CONVEYING A PURPOSE

The SFO must be able to **convey its purpose**, which is more than just financial asset management. Working at an SFO means being close to ownership and having the chance to explore various investment areas ranging from strictly financial to direct involvement in companies. Effectively getting this purpose across is essential to attracting and retaining talent that is committed to the SFO's mission:

> "Just like any job, if it's to your liking, it becomes attractive. There are people who don't want to work in a firm with thousands of employees and prefer to be hands-on, and constantly on the lookout for business opportunities. This chance to be involved in an entrepreneurial project is an essential feature of SFOs and has to be conveyed during interviews."

> "Two people have recently joined the team. What is essential is the mix of trust, chemistry, and commitment to the project. Our SFO is still growing which drives us to keep looking. Without a lucid project vision, interest might well wane."

2 ENCOURAGING ENGAGEMENT IN DECISION MAKING

SFOs offset the lack of vertical mobility available to external managers by offering them **opportunities to take part in strategic and investment decisions**. For example, being able to sit on the Board of some of the investees is an incentive, especially for young professionals who might otherwise encounter barriers to gaining entry to these positions. These incentives foster career development and enhance commitment to the company:

> "You also have the advantage that you're exposed to a lot of things early on. We just hired a 27-year-old employee, and we gave him a board position last year. The only way it's going to work is if everyone is really involved in the project."

3 AD HOC INCENTIVE PLANS

Customized incentive plans are another strategy employed by SFOs. This may include performance shares and stock options designed to align the interests of staff with the organization's long-term success:

> "We've introduced performance shares for various lines of business that are measurable, some medium-term and others long-term... We've also set up a number of stock options through small investment packages."

5. ATTRACTING AND TRAINING THE NEW GENERATIONS

Owners and managers must be aware of the importance of attracting the new generations to ensure proper generational handover in the SFO, and therefore need to deploy initiatives that seek financial education and responsibility as well as active engagement and a sense of belonging in family decisions to ensure that, when the time comes, they are ready to successfully manage the family's wealth.

Table 11 shows the best practices implemented by the interviewees to meet this challenge.

Table 11. Best practices for attracting and training the new generations

BEST PRACTICES	COMMENTS
Teach them to be responsible shareholders	"The concept of being *responsible shareholders or future shareholders* is extremely important. Everyone should have the freedom to decide but everyone should also understand that this will be theirs someday and this entails responsibilities." "The CFO explains the goals of a board, they're given a master class on what this body is about and what a board member's responsibilities are, and then the legal stuff."
Establish clear SFO entry requirements and career plans for those who want to work there	"New members, who are getting older, think they may have potential to enter the family business or family office. Those who look like they have potential and are considered high potential are referred to the mentoring committee and it suggests a career plan or training plan for them."
Encourage active involvement in investment decisions	"Allowing them to make decisions has a crucial educational aspect. Sometimes you're convinced that it's a good idea to buy stock in a large company, you buy it, and then the company crashes. At that point you learn why you made that decision, why the stock fell, and how unforeseen factors can influence the market. We address this process as a family with a training approach as one of our goals is to make teaching about investing a core component for all its members."

Furthermore, as noted above, encouraging impact investing may be a valuable educational tool for younger family members by instilling values of commitment and responsible ownership.

6. FORGING PARTNERSHIPS AND COLLABORATIONS

Another best practice identified to successfully address the challenges of managing an SFO is to forge strategic partnerships and collaborations.

External collaborations enable the SFO to leverage the expertise and resources of other professionals and specialized entities, thus avoiding the need to build in-house capabilities in all areas which can result in inefficient resource allocation. This can be especially beneficial in highly specialized areas or ones where constant upskilling is a must, such as private equity investment management and international wealth planning.

SFOs can tap into broader and deeper insights and a wider range of investment opportunities and specialized services by creating strategic partnerships with experts in various disciplines. These collaborations can also open doors to new networks and business opportunities that may not otherwise be available to the SFO independently.

The main areas of collaboration identified in this respect include, but are not limited to, relationships with external financial advisors, tax and legal consultants, specialized asset managers, financial institutions, and networks of families in business (see **Figure 24**).

Figure 24. SFO partnerships and collaborations

SHARING EXPERIENCES WITH OTHER FAMILIES IN BUSINESS

The SFOs interviewed seek networks to share experiences and knowledge, exchange information, best practices, and lessons learned with other **families in business**. These interactions not only further enhance the SFO's know-how but can also lead to opportunities for collaboration in investment or on joint projects by setting up club deals.

> "Networking plays a crucial role; attending forums and events enables us to forge valuable connections. Investing with other families in business is very rewarding because of the similarities in our visions and goals."

SUPPORT VIA FINANCIAL INSTITUTIONS AND MFOs

SFOs often partner with **financial institutions and MFOs** to outsource certain services and aspects of their wealth management. These collaborations furnish access to specialized services and experts in areas such as investment management, financial planning, and regulatory compliance. By teaming up with these entities, SFOs can optimize their resources and ensure efficient and professional wealth management.

> "We've asked a leading MFO for consultancy services. We believe they have considerable expertise in family offices, i.e., information and a track record of knowledge. We want them to help us in our decision-making to make our SFO more professional."

CO-INVESTMENTS WITH PRIVATE EQUITY AND/OR VENTURE CAPITAL FUNDS

Many SFOs make co-investments with private equity (PE) and/or venture capital (VC) funds. These co-investments offer access to investment opportunities that SFOs would find difficult to tap if they had to invest on their own.

> "We seek partnerships with funds to access co-investments and build an international portfolio. We decided not to set up teams abroad as it is hard work to find talent and compete with funds in London or New York."

Many interviewees also point out that co-investing with these industry professionals is a good practice for getting started in private equity investing that might sidestep many of the biases involved with direct investments, especially in the early days of the SFO.

> "I think every SFO should first invest with other VCs or PEs before taking direct stakes in companies. These co-investments teach you a lot about the investment process and how to go about it professionally. Once you've picked up the basics, it's then a matter of tailoring them to the investment thesis of an SFO which is very different from that of a PE or VC."

7. LEVERAGING THE SFO's COMPETITIVE ADVANTAGES

Last but not least, SFOs must be able to convey the **positive impact** they are making with their wealth, which ranges from funding innovative projects to supporting philanthropic causes.

This must be given visibility. SFOs can improve their reputation while inspiring others to follow their example by sharing their success stories. Raising their profile will help them to enhance their public image and gain access to better investment opportunities.

It is, thus, important for SFOs to leverage the competitive advantages they have over other types of investors to make their investment strategy more successful. SFOs have **unique flexibility** and a **long-term orientation** that enables them to:

- **Foster lasting relationships.** Their long-term approach enables them to build solid and lasting relationships with their investees, thereby moving towards more sustainable and stable development:

> "Most private equity firms aim to make the company look good in two years' time by doing less strategic things. We think more strategically and long-term. We don't ask if EBITDA today is 2% or more. We're in it for the long-term results and try to create value in that way."

- **Have a more flexible exit strategy.** This flexibility means that SFOs can adapt to changing market conditions and protect their investments over the long term, avoiding the pressure of rigid time horizons and maximizing the growth potential of their assets:

> "We don't have a formally established exit horizon. If the company is a very good one, it's best not to move and to stay there long term, although it's important to protect yourself. I have the flexibility to stay for eight or ten years, but I'm not going to go in without a contract in a minority position because I'm taking a lot of risk. Flexibility means that if a fund drags you along in the fourth or fifth year, i.e., forces you to sell, we can structure it in a way that takes us out bit by bit over eight or ten years."

- **Have a greater ability to understand and tackle the challenges of business management**. Their experience as entrepreneurs equips them with an in-depth understanding of business challenges, enabling them to deliver more vibrant and practical support and make a significant contribution to the success of the companies they invest in:

> "Our interaction with the funds is different from the relationship they have with the allocators, who are more passive and methodological. As we've experienced the same difficulties as the entrepreneurs, we're more energetic. We also bring our help and analysis to enhance the decision-making process."

Part 3

From purpose to action

SFOs depends not only on their capacity to adapt to an ever-changing environment but also on the ability of families in business to embrace their uniqueness and build a continuity scenario for their family office that reflects their values, defines their goals, pinpoints the main risks, and suggests ways to mitigate them.

Figure 25 depicts the stages of this SFO continuity scenario. The process outlined here is adaptable and open. It is not about following all the steps to the letter but rather using it as a guide to reflect and inspire constructive discussions between families in businesses and professionals in the sector on how to ensure the continuity of the SFO. Each family should tailor this process to its specific situation taking into account its own needs and goals.

Figure 25. SFO continuity scenario

I. SFO continuity scenario **for families in business**

1. The SFO's mission

What is our stance when faced with the **dilemmas?**

What drives **setting up** the SFO?

What is our **wealth** like?

What is our **family** like?

What SFO **type** do we identify with?

2. The SFO's framework

Which services do we want the SFO to provide?

How do we want to provide them?

What do we want to invest in?

What legal and corporate structures should we adopt?

Which governance mechanisms are we going to set up?

What management team are we going to hire?

3. The SFO's challenges

What are **our conflicts** of interest?

What **investment biases** do we have?

How can we spark the interest of **new generations?**

How can we retain and **attract external talent?**

4. Best practices

Governance and rules for shared wealth

Defining the **investment strategy (IPS)**

Mainstreaming technology in decision-making

Incentives for attracting and **retaining talent**

Attracting and training **new generations**

Forging **partnerships and collaborations**

Leveraging the **SFO's advantages**

II. Llorente family case study

FROM PURPOSE TO ACTION: THE SFO CONTINUITY PLAN

Marta was in the chair as she was at every Family Council meeting, accompanied by her four siblings and her father. After the heated discussion the day before about one of the proposed investments at her SFO's Investment Committee, she found it unbelievable that everyone was chatting so amicably. This would have been unthinkable two years ago.

This is why she was very proud of the reflection and transformation process they had gone through as a family in business over the two previous years since her father had sold the family firm. She was aware that starting up the SFO was just the beginning of a new journey and that they would have to cope with lots of challenges in the future, but she also knew how important it was to celebrate what they had achieved so far and to convey these achievements to the new generations of the family. That is why three members of the new generation were attending the Council for the first time as listeners, and why an agenda had been drawn up to show them how they had got to their current scenario and also to think about the future together.

The family was aware of how central their father, Manuel, was to their lives and how they owed everything to him, and so they decided that the first point of the meeting would be to ask him to look back once again over his business career and explain how he had managed to create the shared wealth that they now managed so proudly. However, before giving him the floor, Marta thanked Isabel, the MFO's trusted advisor who had been with them throughout the entire process. They would not have been able to achieve the unity they now had without her support and drive. After a few words of thanks to the advisor, Marta handed over the floor to her father to officially start the third Family Council meeting since the inception of the SFO.

HISTORY OF THE LLORENTE FAMILY

Manuel slowly stood up, smiling round at everyone in the room, and said:

"Thank you, Marta. Today is a very special day because my oldest grandchildren are with us for the first time. This is yet another example of the family legacy we are building. One of the things we have learned in this process as a family in business is the need to plan meetings carefully to ensure they are effective and stick to the scheduled times, so I'll try to sum up 60 years of business experience in five minutes.

"It all started in the 1980s when, together with my dear friend Pedro, I founded a solar panel import business in Spain. It was a time of hard work and many sacrifices, but the business grew dramatically. Eventually, I set up a holding company and we diversified our investments into property, real estate, and other businesses."

He paused and, looking at each of his children with pride, went on:

"Ten years ago, I went through one of the most difficult times in my life. Due to health problems and at the insistence of all of you, I decided to retire from the solar panel import company, although it was not easy. I was reluctant to leave something that I had built with so much hard work, but I understood that it was the best thing to do. I sold my stake in the business and gave you 49%. This decision prompted your involvement in managing the group, which helped it to become more professional, though always under my supervision and watchful eye.

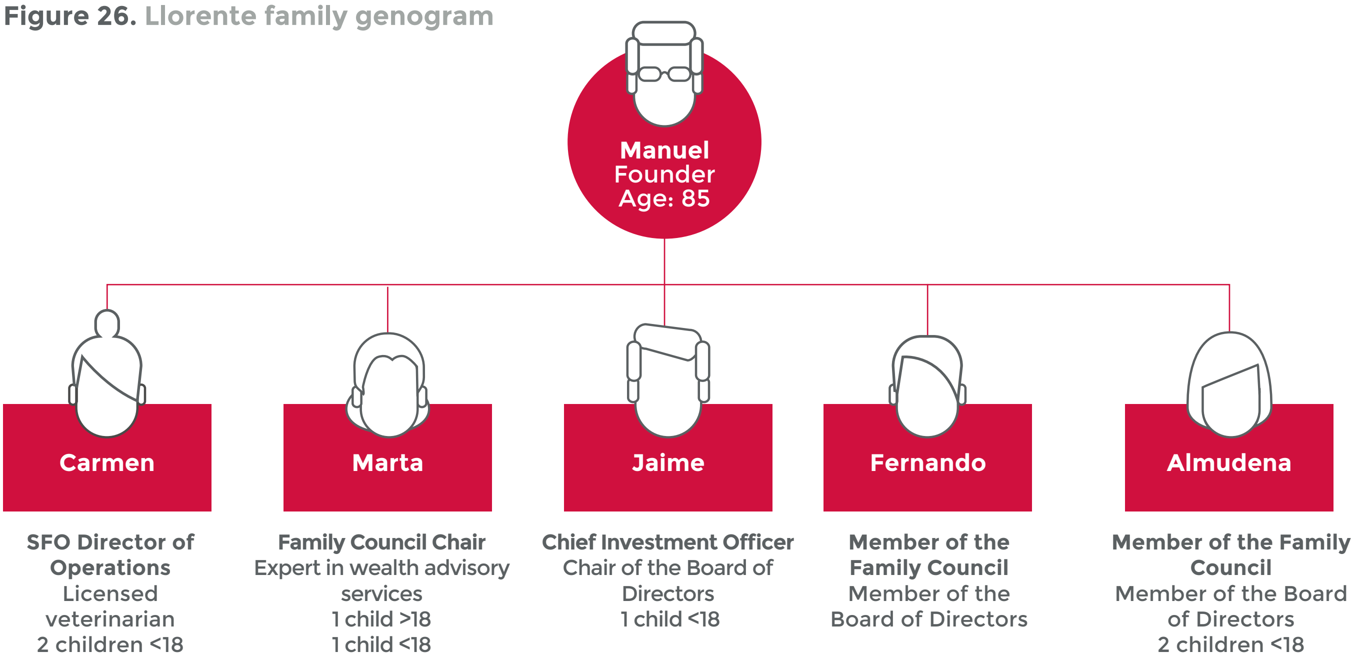
"When it was time for me to retire, I felt younger than ever and so six years ago, together with four other partners, I founded a company engaged in developing solar panel technology. I know you didn't like the idea, and I understand that you were worried about my age and the risks of the new business. However, in the end, I managed to persuade you of the huge growth opportunities I saw in this sector and, most importantly, I think you understood that this was a new thrill in the final stage of my business career. Despite the doubts, the business quickly thrived. As you know, and as I had agreed with my partners at the beginning of the project, we recently sold the company and my 32% stake. This sale generated significant profits on the initial investment. This is when you convinced me that we needed to pursue a planning process to decide what to do and how to manage the wealth we had generated, and that process is what has brought us all together here today.

"I would like you to know that none of this would have been possible without the hard work and support of each and every one of you and, of course, without the help of Isabel who has guided us and most of all encouraged us throughout the entire process. I am incredibly proud of what we have achieved together and excited about what the future holds. And what I would like to say to my beloved grandchildren is: 'Remember that this is the legacy we are building for you'."

With a warm gesture of recognition and affection, Marta took back the floor:

"Thank you, Dad. Now, let's get on with the day's agenda."

Figure 26. Llorente family genogram



STARTING UP THE SFO: DEFINING THE MISSION

Marta gave a brief summary of the process of reflection that had led to the set-up of the SFO. Preparing this presentation had not been easy as there had been a continuous back and forth of interactions among all the family members until they had achieved the goal they had set: to decide what the purpose of the shared wealth was going to be and define their SFO's mission based on this. Even so, she traced a timeline of the process to make it easier to explain to the next generation.

1. The trigger

Following the liquidity event, we were anxious about the future of the wealth we had generated. After consultation with experts, we decided to set up an SFO. We understood your grandfather had worked very hard to ensure financial peace of mind for us and for future generations of the family, and we wanted his values to be part of our DNA as a family in business. That's why we asked him to help us set up an SFO anchored in the principles he had always instilled in us. Our first steps consisted of holding lots of meetings with other families in business who had already established their SFO to learn from their experiences. These were very valuable conversations in which we saw that there is no one SFO model and each family has to find its own office tailored to its needs. Then, we followed the advice of some of these families and decided to talk to several MFOs to find out more about how they could help us.

At the end of this first stage, we decided that since we had no experience in investing, we were going to lean on an MFO to guide us through the whole process and advise us on making decisions, both financially and about how to organize the SFO's governance and the family. This aspect was paramount because, until then, we had never made shared decisions as it was my father—your grandfather—who had decided everything for us.

2. Reflection process

With the MFO's help, we then embarked on the complex job of agreeing on the SFO's mission before addressing its structure, strategy, and organization. This process followed these stages:

BACKGROUND	**1.** The first step was to understand the history of our family in business. To do this, your grandfather told us, as he has done today, about his **business career**. He shared his successes and failures, and how the culture of hard work and his entrepreneurial spirit and mindset always guided his business decisions. **2.** The next thing we did was to sit down and try to understand the **picture of the family wealth**. What were our assets? How profitable were they? **3.** Finally, we assessed our own individual needs and goals centering on two main questions: a. What does "financial peace of mind" mean to each of us? b. Do we need the returns generated by the SFO to maintain our lifestyle? Based on these insights, we drew up **strategic plans for each member of the family.**
THE SFO'S GOALS	The next task was more challenging as it consisted of setting a number of **common goals for the SFO**. After some initial meetings where there was a lot of tension, we realized that it was not a matter of "sacrificing personal dreams" but rather of merging some of them into a common project as a family in business. After long conversations we agreed that the SFO's goals would be: ▪ Ensuring our own individual financial stability. ▪ Enhancing family unity. ▪ Conveying your grandfather's values and teachings to the following generations. ▪ Fostering and maintaining grandfather's entrepreneurial spirit.
DILEMMAS	The discussions on these goals posed a number of **dilemmas** we had not previously thought about, yet which nevertheless helped us to better define the mission of our SFO since they made us reconcile our positions on some issues we had initially disagreed on. Some of these dilemmas were: ▪ Do we distribute dividends to ensure our financial peace of mind or do we reinvest to grow and continue to pursue business ventures just as your grandfather did? ▪ Is the SFO going to cater to our individual goals or to the common goals we have as a family? ▪ Do we want to be involved in the SFO's routine operations, or do we prefer to delegate decisions to experts outside the family? After several intense working sessions and always bearing in mind your grandfather's values and principles, we were able to take up a stance on each of the dilemmas. This led us to decide: ▪ To distribute a portion of the SFO's earnings as dividends but also to invest part of the wealth in private equity to continue growing and sustaining your grandfather's entrepreneurial spirit. ▪ To invest the family's wealth together through the SFO while investing each one's personal wealth individually since the family's members are at very different stages in their lives. ▪ To set up a management team led by one of us but also to rely on the support of the MFO.

At the end of her talk, Marta was proud of this challenging yet beneficial reflection process which had led them to agree on the mission that would guide their SFO. And looking to the next generation with pride and hope, she outlined their SFO's mission:

> "To secure the family's financial peace of mind while ensuring the growth of our wealth for future generations. The family office also seeks to enhance family unity around joint decisions that will shape our future."

3. Designing the SFO: strategy, framework and organization

Marta gave the floor to her brother Jaime who spoke about what happened after defining the SFO's mission:

> "With this mission in mind, we set to work and began designing the SFO, mapping out its services and investment strategy coupled with the way in which governance and management would be organized."

SERVICES	- Our SFO **provides management services for the family's financial, property, and private equity wealth**. We work with an MFO to deliver these services. - For the time being we have not considered rendering services to meet the family's needs.
INVESTMENT	To avoid rushing and investing in suggestions from people close to the family, we have drawn up an investment strategy set out in an IPS: - Our investment **performance objective** is to ensure the financial stability of each family member without foregoing wealth growth. - Our asset allocation is divided into three main categories: 1. Financial investment in equities and fixed income. 2. Investment in real estate with a balanced portfolio that includes assets under development, leased and tertiary. 3. Private equity investment. Although this is less liquid, what we are sure about is that it is the way to drive the performance of our investments. We are currently in the process of setting up a venture capital company (VCC) to start investing in private equity. When it comes to direct or riskier investments, we seek to diversify and always work with other families and experts in the area.
GOVERNANCE MECHANISMS AND RULES	Following several meetings, Isabel's guidance led us to identify some issues which might threaten family unity in the future: - A different level of involvement and access to SFO information for members of the second generation. - Failure to clarify the role to be played by each of the members of the next generation. - Disparate criteria on eligibility for managing and owning the SFO. - Each family member's distinct risk profiles. We designed the SFO's governance with the following goals to ensure family unity and efficient decision-making: - Procure engaged and knowledgeable shareholders to alleviate asymmetric information issues. - Clearly set out the roles of each of the members of the second generation.

- Set up appropriate forums to discuss family, wealth, and business issues.
- Draw up “rules of the game” for shared wealth to make it easier to take decisions.

Although we are still at an early stage in this process, we have drawn up an organizational chart with the roles of each family member in each of the governance mechanisms that we have set up at different levels: family, corporate, and investment-related.

In terms of governing bodies, there is the **Family Council** made up of your grandfather and all the members of the second generation. Marta is the chair of this body and we meet on a quarterly basis. We have set an age requirement of 25 to join the Council, although we are delighted that you are here today as listeners, as one day you will be entrusted with the responsibility of preserving and growing the family legacy.

The **Board of Directors** is made up of the same people as the Family Council plus an external secretary. I am the Chair and we also meet on a quarterly basis, usually after the Family Council.

We have set up an **Investment Committee** as a support body for the CIO. In this Committee, I meet with an external expert who changes depending on the subject matter of the meeting (real estate, finance, private equity, etc.). We meet every month, and the directors are invited to attend. The Investment Committee’s decisions are always submitted to the Board of Directors which votes on them.

Finally, we have also drawn up a **family protocol** that is divided into five parts:

1) Family history
2) Family mission, vision, and values
3) Family rules at work
4) Family rules in ownership
5) Family governing bodies and legal aspects. This is a living document that we are constantly fine tuning.

MANAGEMENT TEAM

For the moment, we have decided not to set up our own team to invest but rather to learn from the best in each area (financial, real estate, and private equity) and rely on the MFO to invest for us.

We have put together a **small management team** with:

- One person in charge of the accounting and administration side.
- Another person in charge of real estate.
- Our Aunt Carmen, who handles the operational side of the SFO and manages the team.

And me; as CIO I look for opportunities although I always use the services provided by the MFO to evaluate and compare these investments.

4. The Llorente family SFO’s challenges

After reviewing what had been achieved, the time had come to think about the future. It was the turn of Carmen and Almudena who had compiled the family’s concerns to draw up a continuity plan for the SFO that would ensure its long-term sustainability.

Carmen and Almudena stood up and began their presentation: “These concerns include the following:

• We have built a **system for unity based** on your grandfather, which poses some questions about its sustainability when he is no longer around.

• Although we are laying the foundations for successful family communication, **involvement** in the SFO varies greatly among the members of the second generation and this might trigger some conflicts in the future.

• Contingencies may arise if any of the members decide to **drop out** of the common project as this is not envisaged in our current plan.

• How we are going to bring in the **new generations** given that there is a significant age gap between them.

• We have identified potential **stressed liquidity situations** when committing to private equity investments that have a long-term horizon and may impact dividend payments and the family unit.

• At present, we do not have a system in place that would enable us to set up an investment **tracking system** which would enable us to make decisions more efficiently."

5. Action plan

This time it was Fernando's turn, who was tasked with proposing an action plan to the family to successfully meet the challenges presented by his sisters and thus ensure the preservation of the family legacy and the creation of value for many years to come. He stood up and handed out a document to the attendees which outlined the main initiatives to be rolled out.

Finally, Marta took the floor again, looked at her siblings and then at her father and, with a deep sense of gratitude, she said: "I think we will all agree that we have achieved a lot but also that we still have a long way to go. More than ever, we need to continue working together, side by side with the new generation, to address the challenges ahead with the same determination and unity that have brought us this far."

Implementing the agreements set out in the Family Protocol	Now that we have signed the family protocol, the main challenge is to transfer it from paper to practice and build a culture as a family in business based on the agreements it contains.
Reinvigorating the Family Council	We would like the Family Council to be the driving force behind family unity and to support activities that foster it along with the continuity of the legacy.
Bringing in the **new generations**	We need to teach all the members of the next generation to be responsible shareholders, so we are designing a "shareholder school" that will be open to shareholders and their descendants over the age of 16. This school will provide training in basic subjects (finance, economics, etc.), as well as in personal skills.
Implementing clear **exit agreements**	Although we are now united, we have very different profiles, and this means it is essential to implement clear exit agreements in the family protocol, should any member of the family wish to leave the family in business. We have also recognized the importance of designing a flexible system of joint and individual investment to reconcile different risk profiles and are working on improving our IPS in this respect.
Drawing up a **detailed private equity investment plan**	The reflection process has helped us to learn about the importance of not getting carried away and making impulsive decisions, and to carefully plan our private equity investments to prevent stressed liquidity situations. Accordingly, we are drawing up a private equity program for the coming years with the help of MFO experts.
Mainstreaming technology in decision-making	We are going to start investing in an advanced technological platform to help us track investments and make decisions and we will outsource this to an external provider.

Appendices

APPENDIX 1. STUDY SAMPLE

Figure A1 shows that the 19 SFOs interviewed were highly **diverse** in terms of both generation and size, measured by number of employees.

The **source of the wealth** came from a total sale of the family business in 37% of the SFOs interviewed; from a partial sale of the business for 16%; whilst 47% of the families retained control of the family business, as shown in **Figure A2.**

Figure A1. Generation and number of employees in the SFOs interviewed

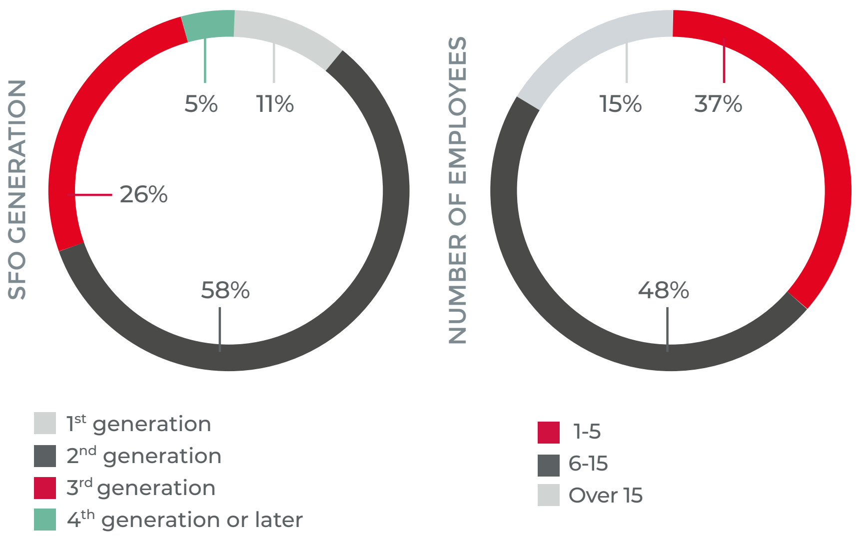
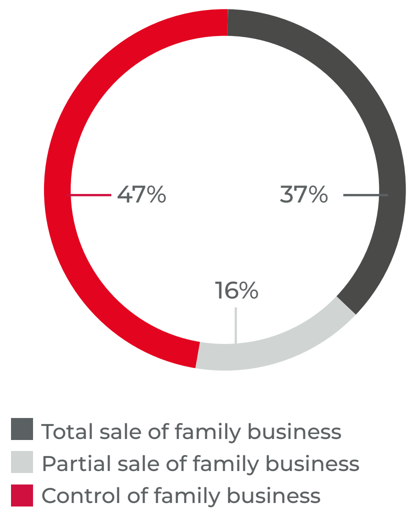
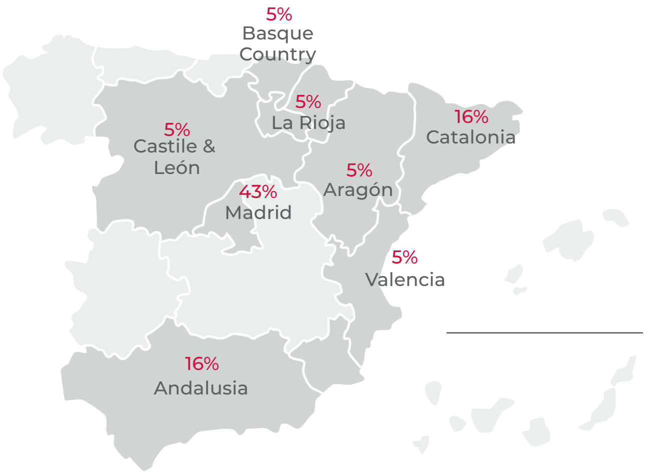


Figure A2. Source of family wealth



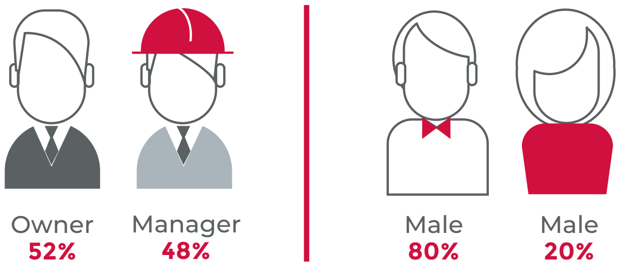
The geographical areas of the SFOs interviewed are presented in **Figure A3**. In total, they account for 72% of Spain's gross domestic product (GDP).

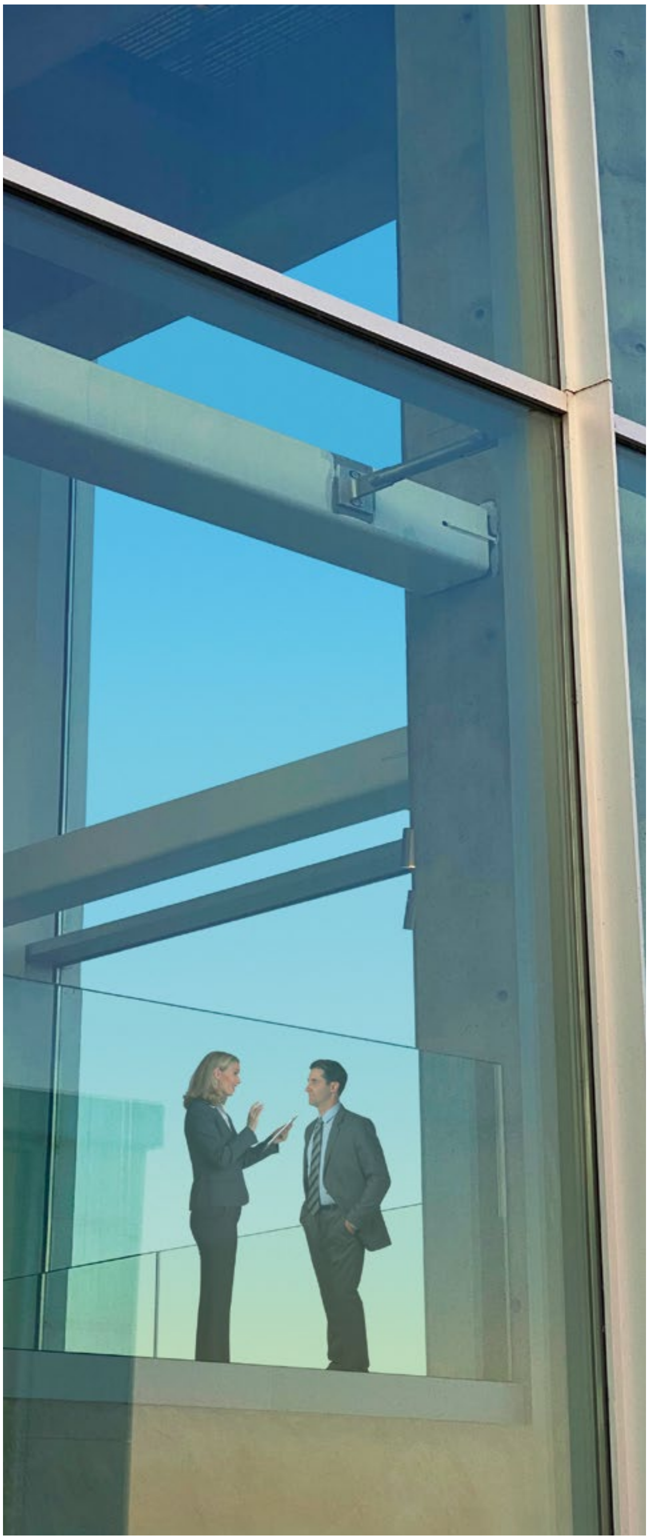
Figure A3. Geographical distribution of the SFOs interviewed



The **profile of the interviewees** is set out in **Figure A4**. It shows that 52% were owners of the SFO while 48% were non-family managers. In turn, 21% of the SFOs interviewed have both roles, i.e., they are the manager and the person representing the family. In terms of gender, most of the interviewees (80%) were men.

Figure A4. Interviewee profile





APPENDIX 2. INTERVIEW SCRIPT

The script was sent to each interviewee a week in advance so they were aware of the topics that would be discussed in the interview beforehand. However, the interviews did not always stick to the questionnaire word for word, enabling the interviewee to address the selected topics in open discussion or to suggest others. The interview scripts used for single family office (SFO) owners and non-family managers are shown below.

INTERVIEW FOR OWNERS

1. Features of the family in business

- Origins and history of the family in business
- Family structure, number of members, generation, different roles of shareholders
- Is the family business active? Does the family have equity in the original family business?

2. Wealth strategy of the family in business: reasons, structures used, and goals

- When did you start active wealth management as a family in business and why did you decide to do so?
- When did you decide to set up a family office (FO) and why? How was your wealth managed before you had an FO?
- What type of FO did you set up?
- Who did you rely on in the process of setting up the FO? Did you have a benchmark FO?
- What financial and non-financial goals do you want to achieve? How have these goals been set? How have they changed over time?

3. Wealth strategy governance: decision-making, professionalization, and family policies

- How are decisions made in the FO? What governing bodies are in place?
- Does the family take part in the governance and/or management of the FO? How? Are the following generations involved? In what way?
- How do you handle any differences of opinion and conflicts within the family over decisions concerning the wealth strategy?
- In which roles does the FO call on external professionals? What is their profile?
- Are members of the governing bodies remunerated?
- Is there a policy for family members to join the FO? Is there a family protocol? Is there a share purchase and sale agreement?
- Is there a succession strategy for the FO? How are the new generations of the family coached?

4. Financial and investment strategy: goals, risk-return profile, remuneration policies, and investment tracking

- What is your investment strategy? On what basis is it defined and what are its goals? How are these goals set? How do you track them?
- How would you define the family's risk-return profile? To what extent does the investment strategy dovetail with this profile?
- How are the family and non-family managers compensated for managing the FO? Do they receive any kind of incentives?
- How do you decide how much is reinvested and how much is distributed to shareholders?
- Do you consider social impact and sustainability aspects in your wealth strategy? In what way?

5. Barriers and opportunities in managing an FO

- What would you identify as the main risks threatening the success of wealth management for families in business?
- What have been the main challenges in setting up your FO?
- If you had to do it all over again, what would you do differently in the process of setting up your FO?
- What advice would you give to other families who are starting this process?
- What is your vision for the management of your wealth over the next five years? Where are you going to steer your investments towards?
- What strategy are you pursuing to preserve the family legacy through the FO?

INTERVIEW FOR NON-FAMILY MANAGERS

1. Interviewee profile

- Length of service in the post, education and previous experience
- Why did you join this FO?

2. Features of the family in business and the FO[14]

- Origins and history of the family in business
- Origin and progress of the FO: when was the decision taken to set it up and why? What services does the FO deliver? How have they changed over time?

3. Professional career and attracting talent

- Why did you decide to pursue a career as a manager in an FO? Advantages, drawbacks, and challenges.
- What are the skills and abilities required to work in a FO?
- What kind of profiles do you recruit?
- What are the main challenges in attracting talent to a FO?
- How are external FO managers compensated? Do they receive any kind of incentives?

4. Wealth strategy governance: decision-making, professionalization, and family policies

- How are decisions made in the FO? What governing bodies are in place?
- Does the family take part in the governance and/or management of the FO? How? What decisions does it get involved in most? And which ones does it usually delegate the most?
- Are the next generations involved? How?
- Is there a policy for family members to join the FO? Is there a family protocol? Is there a share purchase and sale agreement?
- Is there a succession strategy for the FO? How are the new generations of the family coached?
- How do you handle any differences of opinion and conflicts within the family over decisions concerning the wealth strategy?

5. Financial and investment strategy: goals, asset allocation, and investment tracking

- What is your investment strategy? On what basis is it defined and what are its goals?
- How are these goals set? How do you track them?
- How has your investment strategy changed?
- Some studies suggest that FO involvement in direct investments, private equity, has grown in recent years. Is this your case?
- How are the FO's shareholders remunerated?

6. Barriers and opportunities

- In your view, what are the main risks threatening the success of wealth management for a family in business? What about your particular case?
- What is your vision for the management of your wealth over the next five years? Where are you going to steer your investments towards?

[14] When we were able to interview a member of the owner family, these questions were mainly addressed to the family. However, to better understand the features of the family in business and the FO, they were also discussed with the FO professional from outside the family.

APPENDIX 3. Description of SFO mechanisms and rules

Table A1. Main SFO governing bodies

	PURPOSE	CONTENT	IMPORTANCE
Board of Directors	Define strategic policies and oversee SFO operations.	Policies and evaluation of SFO performance and monitoring management's work.	Ensuring effective strategic guidance.
Investment committee	Evaluate and approve the SFO's investment decisions.	The SFO's investment strategy, including asset allocation policies, investment selection criteria, and risk limits.	Efficiently managing the SFO's financial assets.
Family Council	Forum for discussion and decision-making by the owner family on issues related to family wealth management and succession planning.	Wealth management, succession planning, financial education, and setting out family policies.	Fostering family unity and legacy preservation.

Table A2. SFO management rules and/or agreements

	PURPOSE	CONTENT	IMPORTANCE
Shareholders' agreement	Establish a clear framework of rights, obligations, and restrictions of the owner family shareholders in relation to the SFO.	SFO internal governance, investment decision-making, authorization limits, and conflict resolution processes.	Fosters transparency, clarifies responsibilities, and promotes consensual decision-making among shareholders.
Family protocol	Establish the values, principles, and rules governing the relationship and management of family, financial, and business affairs.	Policies in key areas such as investment, wealth distribution, succession, and family governance.	Fosters family unity, aligns interests and expectations, and provides a clear framework for decision-making.
Investment Policy Statement	Establish a coherent strategy aligned with the owner family's financial and risk goals.	Definition of investment goals, asset allocation policies, selection criteria, risk limits, and tracking and review processes.	Provides leadership and discipline in financial asset management.

Acknowledgments:

This report would not have been possible without the cooperation of several Spanish SFOs. We would like to sincerely thank the owners and non-family managers of the SFOs interviewed for giving up their time and selflessly supporting our research. We would also like to thank the people who took part in this study anonymously for their valuable input.

Owners

- Miguel Abelló Gamazo (Torreal S.A.)
- Eduardo Baviera (Lince Gestion Activos S.L.)
- Eladio Bezares (Torrealba y Bezares S.L.)
- Ignasi Botet (Inderhabs Investments)
- María Cordón Muro (Phylira)
- Álvaro de la Haza (Cosentino Group)
- Daniel Entrecanales (Newco Entreriver S.L.)
- Víctor Fabre (Bancale Servicios Integrales S.L.)
- Blanca Hernández (Ebro Foods)
- Alexis Masaveu (Grupo Ojen)
- Georgina Mestre (Hatria Group S.L.)
- Juan Moya (Persán S.A.)
- Santiago Royo (Invext Corporation)

Non-family managers

- Guillermo Barandalla Casado (INJAT S.L.)
- Jorge Gracia (Bancale Servicios Integrales S.L.)
- Ofelia Marín-Lozano (Per 32 Family Office)
- Rafael Noblejas (Timón S.A.)
- Pablo Ollero (Newco Entreriver S.L.)
- Luca Piatti (Hatria Group S.L.)
- José Rodríguez (Grupo Corporativo Landon)
- José Ramón Rubio (Philrya)
- Andrés Sterba (Corporación Exea Empresarial)
- Alfredo Tennenbaum (Torreal S.A.)
- Eva Vila (Corporación Exea Empresarial)

AUTHORS

CRISTINA CRUZ

Cristina is a Professor of Entrepreneurship and Director of the IE Center for Families in Business. She holds a PhD in Economics from the Carlos III University of Madrid.

Her research focuses on understanding the decision-making process of family businesses and entrepreneurial families. Her studies on corporate governance, philanthropy, and entrepreneurship within family-controlled organizations have been published in leading academic management journals. Her outstanding research contributions have earned her several awards, and she currently serves as Associate Editor of Family Business Review.

As the Director of the IE Center for Families in Business, she leads numerous applied research projects through which, in collaboration with other institutions, she supports entrepreneurial families in their primary challenge: creating value over generations.

LAURA JIMÉNEZ

Laura has a PhD in Business Administration from IE University (2023) and is the Associate Director of the IE Center for Families in Business. She holds a master's in research Methodology in Management Science from IE Business School and a degree in Business Administration and Law from the Francisco de Vitoria University.

Her research focuses on the corporate governance of listed family-owned companies and how investors perceive their decision-making processes. She has participated in major international academic conferences, such as the Academy of Management (AOM) and the Strategic Management Society (SMS), and her research was nominated for the Best Paper Prize at the latter. She teaches Family Business at undergraduate level at IE University and directs the final projects in this field.

Prior to joining IE University, she worked as a lawyer in the legal department at Deloitte.

FERNANDO OLIVEROS

Fernando is a partner in consulting firms including Oliver Wyman, Mitchel Madison Group, and AlixPartners, and has professional experience in over 30 countries in the Middle East, Europe, Asia, the USA, South America, and Africa. He was CEO of WinWinD, a wind turbine manufacturer in Finland and India, and was also a special projects manager at Ooredoo Algeria. He is a member of the Board of Directors of OceanX (Saudi Arabia) and Tecverge Technology Solutions (India) and a former board member of Acuntia.

He is currently working on his doctoral thesis at IE Business School under the supervision of the Director of the IE Center for Families in Business, Cristina Cruz, where he is researching family offices and venture capital, and is a professor of Energy Asset Valuation at ESCP Business School.

He holds a degree in Physics from the Complutense University of Madrid and an MBA from IESE Business School.

FOUNDATION

https://familiesinbusiness.ie.edu/ • https://www.abanteasesores.com/

IE UNIVERSITY
CENTER FOR FAMILIES IN BUSINESS

fundación abante