COORDINATING FAMILY ENTREPRENEURSHIP: WHEN MONEY MEETS OPPORTUNITY

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Motivation

Have you ever asked yourself: "for heaven's sake, what shall I do with my billions?" As odd as this question might sound in the first place, many individuals like Oprah Winfrey or the Rockefellers face exactly this challenge. Family offices know the answer. They are administrative bodies that act at the intersection of wealthy families and their enterprises. Our wisdom on family offices mainly refers to their function as organizations that are dedicated to families' professional wealth management and complementary services such as tax or legal advice (Amit and Liechtenstein, 2009; Hauser, 2001). Less is currently known about the role of the family office that is embedded in a network (Jones *et al.*, 1997; Zaheer *et al.*, 2010) to sustain "family spheres of influence" (Zeitlin, 1989, p. 27) and preserves wealth as a legacy for future generations (Daniell and Hamilton, 2010). This network consists not only of the family but also of a family business as well as external advisors such as lawyers, real estate managers and tax advisors. Based on this sophisticated network one way to achieve wealth preservation is the family's engagement in entrepreneurial activities and financial investments (Dunn, 1980). Therefore, in this study we ask, *how does a family office coordinate its clients' entrepreneurial activities?*

According to anecdotal evidence, family offices have at least two roles in the entrepreneurial process. First, through their family offices, families provide financial resources to venture capital funds that promote the formation and growth of start-ups. They hence nurture conventional entrepreneurship and innovation. Second, family offices help wealthy families engage in philanthropy and support them in acting as social entrepreneurs (Decker and Lange, 2013). To explore the role of family offices in the entrepreneurial process, we analyze the international media coverage over more than a decade and interviews with owners and managers of German and Swiss family offices.

Data and Methods

Due to a lack of published research on family offices we draw on a qualitative and exploratory approach for our study that proceeds in two stages. First, we analyze the media coverage on family offices. It is a source that has already proved to provide a reliable picture of family offices (Decker and Lange, 2013; Dunn, 1980) and the wealth owners behind them (Gilding, 1999). Because family offices constitute an increasingly internationally operating segment of the financial services industry, we use articles that were published in the London-based *Financial Times* and in the New York-based *Wall Street Journal* from 2000 to 2010 for a qualitative content analysis.

Second, we use interviews with owners and managers of ten single-family offices that are located in Germany and Switzerland. All but one family office manage assets exceeding USD 1 billion in capital. We rely on a key informant approach involving individuals that have profound experience, which increases response validity (Kumar *et al.*, 1993). Due to the families' high financial power and prominence, getting access to our interviewees required continuous renegotiation and recalibration (Gilding, 2010). The 14 semi-structured interviews that were conducted in 2011 and 2012 lasted between 40 and 120 minutes. They were tape-recorded and transcribed. To ensure confidentiality, all identifying information was removed.

Selected Findings

A family's wealth may originate from a complete or partial sale of the family firm. However, it can also support families who are still owning and managing their traditional family businesses. Then, the family office may act as a mechanism to safeguard the family's liquidity and the existence and expansion of the family business in the long run:

> If there is a business at the core, with 20,000 employees, then the organization that is denoted as a family office is an "elongated workbench", where you can buy a share or get advice at a reasonable price. (Interview Gamma1)
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> We have simply extracted money from (the family business), because it could not be used there, and we wanted to put it into a single structure to manage the assets jointly. (…) We did this for safeguarding purposes, but the project evolved such that we decided to make financial investments. (…) But at the moment, the strategy is clearly conservative – asset protection and low returns. (Interview Beta2)

Family offices can support wealth owners' entrepreneurial endeavors beyond their traditional family businesses, for instance by helping them provide venture capital funds for start-ups in the high-tech sector:

> Michael Jaharis, the pharmaceutical entrepreneur who sold Kos Pharmaceuticals Inc. to Abbott Laboratories in December for $4.2 billion, is pursuing a new endeavor: venture capital. Mr. Jaharis, who owned just more than 50% of Kos at the time of the merger, launched Vatera Capital LLC in April to invest his family's money in emerging health-care concerns. The New York firm has made one investment, participating in a $53 million Series D financing for Aveo Pharmaceuticals Inc., and is evaluating dozens of opportunities, said Kevin T. Ferro, managing director of Vatera and chief investment officer of the Jaharis family office. (…) Through Vatera, start-ups will be able to tap the expertise of one of the industry's farsighted executives. (…) Anticipating trends is one of the ways Mr. Jaharis and his team at Vatera hope to profit as venture capitalists. (…) One benefit for start-ups working with Vatera may be that Mr. Jaharis and his team know how to address big markets and compete with big players. (*Wall Street Journal*, August 15, 2007)

Joint investments with other wealth owners – "club deals" – become increasingly important and are less risky than venture capital funds. They nurture the investors' indirect influence on corporate strategies and business models. As a family office manager puts it,

> I had recommended them shrinking family office size and investments and instead acquiring minority interests. Either without or together with like-minded partners in order to have in sum the majority of shares. (Interview Eta1)

Family offices are increasingly asked for advice on philanthropy, especially in terms of selecting charitable projects and evaluating their outcomes. Philanthropy is important:

> Ironically, the key to preserving wealth is, in many cases, a coherent plan for giving some of it away. "People over the last 10 years have become so wealthy, they feel they want to give something back," says Treyz (head of JP Morgan in Europe). "They also feel there is a destructive power of wealth – how much is too much? – and philanthropy is a way of establishing and preserving family values. It gives a core of unity that passes from generation to generation." (*Financial Times*, February 22, 2003)

This opinion, however, is not shared by all families as one of our interviewees illustrates: "We do not donate. Not a single cent" (interview Gamma1). Those who engage in philanthropy use their family offices in different ways for this purpose. First, the family office may directly manage and monitor family foundations that may serve a wide range of purposes, e.g., gender equality, youth and education. Second, family members may directly liaise with organizations such as microfinance institutions. Thereby, they rely on the returns of their financial investments that are managed by the family office and eventually use the earnings from their family business.

Conclusion

Overall, our study adds to the position that there "are many opportunities to analytically link family firms to innovation, entrepreneurship, and societal wealth creation" (Heck *et al.*, 2008, p. 326). By analyzing family offices as actors in a sophisticated network, we shed new light on how wealthy families exert influence within economies (Dunn, 1980). Our findings illustrate that family offices act as coordinators of families' entrepreneurial activities. They reveal that family offices promote network governance within family spheres of influence as a response to high adaptation, coordination and safeguarding needs (Jones *et al.*, 1997). Adaptation needs result from, e.g., a volatile market for venture capital, changing demand for the products and services that are provided by the eventually existing family business or dynamic family structures. Coordination needs are due to the fact that families' financial investments and entrepreneurial projects are highly specific and complex tasks that require the involvement of a range of diverse specialists, e.g., in the fields of law, tax, finance and philanthropy. Safeguarding needs are an outcome of the circumstance that various parties, such as family members from different branches and generations and non-family members who may act as, e.g., consultants, service providers or co-investors, are involved in the wealth owners' entrepreneurial projects and investments.

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