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How Governance, Family and Entrepreneurship Influence Investment Strategies in Single Family Offices

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Abstract

Single Family Offices are a growing structure designed to help families manage their wealth. This study aims to shed light on the factors influencing the investment strategies of single family offices. The factors analyzed are the impact of governance, family involvement and entrepreneurship. As families are all very individual, so are their single family offices. The influence of the selected factors varies greatly from case to case. Despite their great heterogeneity, a number of similarities can be identified. Due to the small size of the family, the majority of the families surveyed have no written family governance. Final decision-making power is always in the hands of the family, even when non-family members are CEOs of the SFO. Generational differences in interests and risk preferences have a significant impact on investment strategies. Although research emphasizes the importance of fostering entrepreneurship within the family, most families do not actively promote the entrepreneurial spirit within their families. The study concludes with a discussion in which the newly generated data support existing theories in some cases and contradict them in others.

Keywords: single family office; investment strategy; family governance; family influence; entrepreneurship

1 Introduction

Although most people are familiar with family businesses, the majority doesn't know what a family office is. This is largely due to the fact that family businesses are all around us. It is the most common form of business around the world. (Kappes & Schmid, 2013). According to consulting firm McKinsey (2024), over 70% of the world's GDP will be generated by family businesses. In Germany alone, 90% of all legal entities are family businesses, employing approximately 17 million people (Gottschalk et al., 2019). In contrast to family businesses, FOs not only exist in much smaller numbers, but they also actively pursue discretion (Kammerlander et al., 2018). This combination creates a rather secluded niche in which family offices primarily (want to) operate in.

1.1 Family Office Overview

Research is still very limited due to the small number of family offices (FOs) and the high level of privacy (Kammerlander et al., 2018; Rivo-López et al., 2017). Some authors trace the origin back to the ancient Roman major domus (head of the house) and the medieval major domo (chief steward) (Amit et al., 2016). Others trace the lineage back to the creation of European private banks 500 years ago or to the Crusades in the 1400s to 1500s (Rivo-López et al., 2017; Rosplock, 2014). Modern FOs as we know them today were established in the US shortly after the industrial revolution to help industrial revolution entrepreneurs manage their wealth (Amit et al., 2016; Rosplock, 2014). The first notable families to build this model were industrial giants such as the Vanderbilts, Dupont, Guggenheim, and Morgan (Canessa et al., 2018). Today, household names such as Bill Gates or Mark Zuckerberg have created their own Single Family Offices (SFO) to professionalize their wealth management (Rivo-López et al., 2017). These two famous tech billionaires are not the only ones who have recently established an SFO. In recent years, the number of SFOs has tripled, especially due to the growing upper class in the APAC region (Morrison, 2024).

Although most experts and institutions agree that the family office industry has grown in recent years, there are no concrete figures on the number of family offices because many family offices are not registered in the same legal form, making it almost impossible to obtain official data (Kenyon-Rouvinez & Park, 2019). Not only do different institutions have significantly different estimates, but in most cases they can only give a very broad range, leading to the conclusion that institutions have different definitions of family offices, which is why some institutions include non-family offices in their estimates (Zeuner et al., 2014). In many cases, large financial service providers are counted as family offices without actually being one. Especially after the global financial crisis in 2008, the reputation

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of financial service providers took a hit, leading them to reposition themselves as family offices in order to appear more trustworthy and capitalize on the positive connotations people have with family offices (Rosplock & Hauser, 2014). Private Banking Magazine (2024) estimates the number of SFOs to be around 5000 worldwide. The Family Office Exchange (2019) “guesstimates” the number of SFOs to be around 10,000 in the US alone. Other institutions have estimated that there are around 6000 - 7300 SFOs globally (Burroughes, 2019; Campden Wealth Limited, 2019).

Depending on the size of the family’s assets, they may decide to establish their own Single Family Office (SFO) or join a multi-family office (MFO). If the family’s assets do not meet a certain threshold, an SFO would become too expensive, paving the way for families to join an MFO. Another testament to the limited literature is the wide range on assets under management (AUM) that must be met for an SFO to afford operating costs, provided by the literature. $100 million is often considered the threshold for an SFO (Kenyon-Rouvinez & Park, 2019). Kammerlander et al. (2018) believe that the threshold for a SFO is $50 million. Other research or institutions argue for different ranges or thresholds. Campden Wealth Limited (2019) argues that an SFO only makes sense for families with private wealth in excess of $150 million. Rosplock (2014) states that building a fully functional SFO begins in the $500 million to $1 billion range. Decker and Lange (2013) state that SFOs are only sustainable for families with private wealth in the $200 - $300 million range. Given the size of the family’s assets, they have different options for the type of SFO they want to establish. Some are more cost effective, while others are significantly more cost intensive.

Despite the limited literature, researchers agree that the number of FOs will most likely continue to grow over the next few years due to the increase in ultra-high-net-worth individuals (Rosplock & Hauser, 2014).

Derivation of Research Question

First research papers focusing on the investment strategies of family offices have been published (Block et al., 2019; Campden Wealth Limited, 2019; Kammerlander et al., 2018). However, none of these studies provide a holistic view of how different drivers interact and ultimately shape the investment strategy of SFOs. While there are multiple factors that influence an investment strategy, this paper will focus on three aspects:

1. Governance Impact
2. Family Influence
3. Entrepreneurship

By examining how these factors influence the investment strategy, this study makes several contributions to the literature. First, it sheds light on how these three selected drivers influence each other before they influence the investment strategy. Secondly, it provides a more in-depth look at the decision-making process and the key drivers that influence the existing investment strategies of SFOs.

In the context of family businesses and family offices, governance structures play a critical role in shaping various strategies, whether it is business operations in a traditional family business or investment strategies in a family office (Gallo and Kenyon-Rouvinez, 2005; Kappes and Schmid, 2013). This includes both family governance and corporate governance frameworks. It is conceivable that families have different levels of sophistication in their governance practices, which may result in different degrees of influence over strategic decisions. In particular, when the family business is sold, the only governance that would remain would be the family governance. Sophisticated family governance may have already eliminated potential asset types or even entire asset classes, in which case family governance would have a significant impact on the investment strategy and its diversification objectives.

While it may seem obvious that a family has influence over the family office, the extent of that influence can vary considerably. Influence on investment strategy is significantly greater when family members are operationally active in the family office than when they are involved only in a supervisory or advisory capacity. In addition, conflicting views within the family on issues such as diversification and risk levels can further influence the strategic direction of the family office. Families may also determine the extent to which they can exert their influence, especially when considering how active the next generation should become in the family office.

Finally, this paper analyzes the impact of entrepreneurship on investment strategy. Business families are generally considered to be entrepreneurial, using the family as a resource for entrepreneurship (Nordqvist & Melin, 2010). It is not yet clear whether this spills over to the family office or vice versa. There may be different perspectives on entrepreneurship that lead to different preferences within the family, which could also change or alter an investment strategy.

1.2 Structure of this Paper

This paper is organized into six sections to effectively achieve the established objective: (1) Introduction, (2) Literature Review, (3) Methodology, (4) Findings, (5) Discussion, (6) Conclusion.

Following the introduction, the (2) literature review provides the basis for this family office research, focusing on the factors influencing investment strategy. The literature review begins with a theoretical definition of family offices, which types exist and how they are established. The focus then shifts to family office investments, what types of investments are available and what asset classes exist. The influencing factors are then presented, starting with governance, followed by the influence of the family and external management. Finally, a classification of entrepreneurship and intrapreneurship will be presented. The literature review concludes by linking the main themes and relating them to the research question. The third chapter focuses on the (3) Methodology. This includes an explanation of the chosen interview method and the questionnaire. It ends with a description of the sample. The following chapter presents the (4) Findings. Derived from the findings, chapter five (5) Discussion includes the discussion followed by the limitations of the present research which are then explained and recommendations for further research are presented. The last chapter (6) Conclusion concludes this paper and summarizes the findings.

2 Literature Review

The following chapter provides a comprehensive overview of the literature and theoretical frameworks used in family office research. Current research and scholarly discussions will be reviewed and interlinked. The literature review is divided into three subchapters, each focusing on one topic. The topics include a deep dive into the definition and purpose of family offices, types of investments and asset classes, and finally the factors influencing the investment strategy, in this case governance impact, family influence and entrepreneurship.

2.1 Definition of Family Office

Research has not been able to find a single point of truth when it comes to finding an appropriate definition for family offices. This challenge can be seen in the various attempts by institutions to estimate the number of family offices, as mentioned earlier. Researchers have come up with several definitions of what a family office is, and Exhibit 1 presents four definitions used in the literature, ranging from broad definitions to more specific and narrow definitions:

These definitions effectively describe the general concept and functions of family offices. As this paper focuses exclusively on single family offices, it is crucial to build on these basic definitions with a more precise description specific to single family offices. Based on these definitions, this paper follows the definition of Kammerlander et al. (2018): a single family office exists when all organizational units are owned by an entrepreneurial family and manage or invest the family's assets and are exclusively committed to the interests of the respective family (Kammerlander et al., 2018).

Types of family offices

Since this paper focuses not on family offices in general, but on single family offices in particular, it is important to distinguish between the different types of family offices. There are many variations of FOs due to differences in their legal structure, size and services provided. Regardless of those differences, FOs can be clustered into two overlying categories: MFO and SFO. As the name suggests, an SFO serves only one family in its wealth management, while an MFO serves at least two families (Kenyon-Rouvinez & Park, 2019).

Multi Family Office:

A MFO is a service provider for multiple families who can purchase services and a professional infrastructure from a MFO. (Kenyon-Rouvinez and Park, 2019; EY Family Office Guide et al., 2016) Generally, a MFO manages the families' financial affairs without offering its own products, but by sourcing the best possible managers from other institutions. (Decker and Lange, 2016; Verein unabhängiger Family Offices, 2014)

Virtual Single Family Office:

Kammerlander et al. (2018) argue that virtual SFOs have by far the lowest degree of institutionalization, as they are often associated with the natural person or a partnership of asset owners. Kenyon-Rouvinez and Park (2019) agree that the main advantages of a virtual SFO are its flexibility and low cost structure. A virtual SFO is typically established by families with smaller wealth and resource constraints, often focusing on a few selected asset classes. The main challenges for virtual SFOs are the lack of sophisticated reporting infrastructure, confidentiality risks and lack of expertise in certain asset classes (Kammerlander et al., 2018; Kenyon-Rouvinez and Park, 2019).

Embedded Single Family Office:

An embedded SFO can only exist if the family business still exists. It's part of the company, which allows it to access and use the company's resources. This reduces redundancies and increases efficiency (Kammerlander et al., 2018). Despite the advantages, the limited fungibility in the event of a sale of the family business and the lack of liability segregation are significant disadvantages. Although an embedded SFO is physically located within the family business and is also legally part of the family business, it is often a separate part of the family business that is overlooked by the CFO or the board of directors directly (Rosplock, 2014; Kenyon-Rouvinez and Park, 2019). Often, the embedded SFO is a starting point for the transition to an independent SFO. An embedded SFO is typically established as a hybrid, two-tiered structure to manage family wealth. Families often appoint a trusted employee of the original company (e.g., former CFO) (T. Zellweger & Kammerlander, 2015).

Independent Single Family Office:

An SFO is a private company funded by the wealth of a wealthy family and established to meet the family's personal and financial needs (Rivo-López et al., 2017). It's the most common form of SFO and is typically established as an investment holding company. Unlike an

Table 1: Selected Definitions of a Family Office

Source	Definition
Fernández-Moyá and Castro Balaguer (2011)	A private office for managing and preserving the wealth of the proprietary family.
Rosplock (2014)	An Organization dedicated to serving wealthy individuals and/or families on a diverse range of financial, estate, tax, accounting, and personal family needs.
Canessa et al. (2018)	A family office is a self-contained organizational unit belonging to one or more families or individuals with a large portfolio of complex assets. It exists to organize the management of that wealth by bundling assets and streamlining services for better long-term growth. The active consulting that the family office provides to its individual members or family as a whole must always be free of conflicts of interest.
Verband unabhängiger Family Offices (VuFO), (2014)	A family office supports a family / wealth holder (single family office) or several families / wealth holders (multi-family office) in the holistic control / coordination of the management of their assets on the basis of a long-term, cross-generational investment and management strategy and, if necessary, a family strategy and succession planning. The family office takes a holistic approach to providing strategic advice to the family / wealth holder and is therefore in a position to perform advisory, control and management functions in all asset classes.

embedded SFO, an independent SFO has its own infrastructure and does not need to rely on corporate resources (Kammerlander et al., 2018). One of the main advantages of an independent SFO is that there are no conflicts of interest within an SFO, whereas an MFO may have room for conflicts of interest because it is not owned by the family (Verein unabhängiger Family Offices, 2014).

The relationship between the family and the family officer varies between an MFO and an SFO. In the case of an MFO, the relationship is best described as a client-service provider relationship, whereas in an SFO, the family owns the SFO, thus making it the employer of the family officer (Kenyon-Rouvinez & Park, 2019).

Why set up a SFO

"If you have seen one family, you have seen one family office." This phrase is often found in the context of FOs (Rosplock, 2014). It reflects the heterogeneity of FOs and their respective families. However, this doesn't mean that there are no commonalities among FOs. In particular, the reason for starting an FO can be clustered, as most families have similar reasons for doing so.

The primary motivations for ultra-high net worth (UHNW) families to establish a family office are to preserve family wealth and maintain control (Rosplock, 2020). However, FOs do not only have financial objectives. Many also prioritize goals such as family harmony and cohesion, conflict prevention, philanthropy, or education (Rivo-López et al., 2017). Although FOs are highly individualized, the trigger for establishing FOs can in most cases be divided into two categories. In about 45% of the cases, the trigger is to diversify the family's wealth. In 48% of the cases, a cash event, either through an IPO or the sale of parts of the family business, triggers the establishment of an FO (Krüger et al., 2030; Rosplock, 2014). If the family is still relatively small, the family leader may be able to create an FO structure on his own. As the family grows larger, it becomes more complex as the leader must convince shareholders of the benefits of establishing a FO (Canessa et al., 2018). Another reason why families create SFOs is a strategy to separate the family wealth from the operating family business (Kenyon-Rouvinez & Park, 2019). In this case, the goal is to professionalize wealth management, especially if the older generation fears that the next generation lacks the entrepreneurial thinking and competence to manage the family wealth or wants to limit the access of individual family members to the family wealth (Welsh et al., 2013; T. Zellweger and Kammerlander, 2015). Another motivation for establishing an FO is to preserve part of the family's identity. Especially after the sale of the family business, families often have an identity vacuum that can be filled by a family office, thus preserving the entrepreneurial spirit of the family as well as its identity as a business family (Schickinger et al., 2021). There may well be other individual reasons why families or individuals establish a FO, but in most cases the reasons mentioned above apply.

As explained, the reasons why families or individuals establish FOs vary from case to case, but the expectations are quite similar in all cases. The preservation of wealth (Rosplock, 2020). Canessa et al. (2018) explains that apart from wealth and asset management, the FO also provides administrative services for the family, most commonly for tax purposes and record keeping. It also offers the family the opportunity to continue having a purpose or more importantly an identity, in case the family business has been sold. In some rare cases, FOs also provide concierge services to family members, such as travel planning or booking appointments (Canessa et al., 2018). Although researchers have different approaches to clustering family business activities, they all describe similar activities in different ways. Rosplock (2014) divided the activities provided by an FO into four categories: Consulting, financial planning, strategy, and governance. Rivo-López et al. (2017) grouped FO activities into three categories: Investment Related Activities, Family Related Activities, and Administrative Related Activities. Finally, Campden Wealth Limited (2019) structured the services provided by FOs into investment-related activities, family professional services, administrative activities and general advisory services. Although all categories have different focuses, it can be argued that the most important activities are included in each of the sources.

2.2 Investments of Family Offices

In order to approach the broad topic of investments within the FO context, this paper categorizes it into two topics: investment goals and investment vehicles & asset allocation.

2.2.1 Investment Goals

As mentioned above, there are many reasons why individuals or families establish a FO. The ultimate goal for almost all FOs is to transfer wealth to the next generation. This long-term thinking is reflected in the investment objectives and therefore the strategic asset allocation. It is important to note, however, that FOs strive to achieve non-financial as well as financial goals (T. M. Zellweger et al., 2013). Amit et al. (2016) conducted a global survey of single family offices and found that most families believe that their SFO's "primary purpose is to manage investments. 'Soft' responsibilities such as coordinating education, providing concierge services, and organizing philanthropy are seen as significantly less important SFO responsibilities." Rosplock and Hauser (2014) question this finding, arguing that in their experience, "soft" services are highly valued by family members. Family members may have been reluctant to make this admission because it doesn't sound as serious as focusing on investment returns.

2.2.2 Financial Goals

Wealth preservation tends to be more important than wealth creation. The results are already satisfactory if the gains compensate the losses due to inflation and inheritance tax (Decker & Lange, 2013). Thus, wealth preservation is more important than growth. A higher risk affinity may lead to higher returns and thus better results, and a higher entrepreneurial risk affinity is usually found more in the founding generation (Welsh et al., 2013). Later generations tend to be more risk averse and invest more conservatively to mitigate risk and return. Some asset classes are more suitable than others. Private equity in particular offers both sides, direct entrepreneurial investments (DEI) in established companies with lower risk or in ventures (up-and-coming start-ups) with higher risk. It's no surprise that FOs place a higher emphasis on the profitability of their target companies than on scalability. Managers of FOs fear the risk of losing family wealth and jeopardizing their well-being, so they invest in "already profitable firms rather than bear the risk - and potentially high returns - of high-growth firms" (Block et al., 2019).

2.2.3 Non-financial Goals

Apart from the financial goals, contrary to other institutional investors, FOs also have non-financial goals which are of high importance. Literature offers a wider array of potential non-financial goals like family legacy, identity, social status in the community and family education among other things (Wessel et al., 2014; Chrisman et al., 2012). When it comes to risky business decision, FOs are as rational as other institutional investors. Nevertheless, the criteria judging the decisions riskiness may differ between the two of them. For institutional investors financial criteria seem to be the most important ones whereas for FOs the protection of their "socioemotional wealth endowment" is a key criterion (Gomez-Mejia et al., 2007). They are willing to face greater performance risk so as to not threaten that endowment. With all that being said, T. M. Zellweger et al. (2013) stresses that the prioritization of non-financial goals does not imply "that controlling families are self-sacrificial" in their financial goals or that they exclusively pay attention to non-financial goals.

2.2.4 Asset allocation and Investment Vehicles

Strategic Asset Allocation (SAA) is as important for FOs as it is for any other investor to mitigate risk and enhance returns, but how do they invest? In some cases, FOs do not personally manage the portfolios at all, but instead focus exclusively on selecting external asset managers and negotiating favorable asset management contracts and fee structures (Canessa et al., 2018). Within their SAA, private equity plays an increasingly important role. FOs have been increasing their share of private equity investments within their portfolio (Kenyon-Rouvinez & Park, 2019). Many believed that more outsourcing led to better performance, but since the financial crisis of 2007/2008, the FOs that have relied least on outsourcing are the ones that have achieved the best results (Rivo-López et al., 2017). Given the entrepreneurial nature and background of business families, FOs also invest in venture capital, mainly through VC funds (Decker & Günther, 2016). In addition to private equity investments, either directly or through funds, family offices invest in a wide range of asset classes to diversify the business. These asset classes include equities, bonds, real estate, commodities, and alternative investments in the context of impact investing (Böckhaus, 2022). Overall, FOs are improving their risk management capabilities by focusing on a more diverse portfolio (Rivo-López et al., 2017).

2.3 Influencing Factors

Each FO has an individual investment strategy based on the risk aversion or affinity of the owning family. The SAA will also reflect the family's individual interests and competencies, making each strategy highly individualized. In addition to risk preferences and interests, the SAA is also influenced by other factors, especially family governance, family influence and entrepreneurship.

2.3.1 Family Governance

"The functions of family governance are to achieve, maintain, and increase family members' unity both among themselves and with their family business; promote stable and committed ownership; and ensure that shareholders adopt a professional attitude towards the business so as not to impede operations" (Gallo & Kenyon-Rouvinez, 2005). Smaller

Table 2: Services provided by Family Offices

Services	Details	Author
Professional Wealth & Asset Management Administrative Work Promoting Family Unity Other Benefits	Strategic asset allocation, manager selection, monitoring and reporting Archiving documents & contracts, tax advisory Reinforcing family identity, mediating role Concierge services	Canessa et al. (2018)
Advisory Financial Planning Strategy Governance	Risk management, legal & tax advisory Investment management services Business & financial advisory Reporting, succession planning	Rosplock (2014)
Investment-related activities Family related activities Administration-related activities	Asset allocation, manager selection, monitoring Education, Risk management, philanthropy Legal Services, financial administration and client reporting	Rivo-López et al. (2017)
Investment related activities Family professional services Administrative activities General Advisory Services	Strategic asset allocation, monitoring Facilitate family governance, communication Tax and accountancy services Educational and lifestyle services	Campden Wealth Limited (2019)

families with close-knit members may not need all the functions of governance, but they do need the ability to communicate, transmit values, and plan for continuity. Just because a family is a unified group of owners does not mean that it is homogeneous in its opinions and decision making. On the contrary, families are very heterogeneous in their interests, goals and preferences (T. Zellweger & Kammerlander, 2015). Family governance is established to mitigate the risk of intra-family conflict as well as to reduce agency costs between owners and managers due to the existing close alignment between the two (Lee & Chu, 2017a). In addition, family governance ensures a longer time horizon, which allows FOs and family firms to be more long-term oriented (Kappes & Schmid, 2013).

2.3.2 Family Influence

Due to the nature of SFOs, family influence cannot be overlooked when analyzing investment strategy. It makes a big difference whether families are active in the SFO or not. For example, external CEOs have been shown to reduce efficiency by reducing the level of investment. In addition, external CEOs have been shown to be more risk averse than CEOs with blood ties (García-Sánchez et al., 2018). Furthermore, family management (family member as CEO) reduces agency costs and increases stewardship attitudes, thereby extending time horizons (Miller & Le Breton-Miller, 2006). Family involvement differs greatly among SFOs. If an SFO has a relatively small owning family, the family is more active in the SFO. If the SFO has a larger family that spans multiple generations, individuals "devote less time to investment activities than those in SFOs with lower wealth and fewer generations" (Amit et al., 2016). Often, many families have either a business-first or family-first attitude (Lumpkin et al., 2011b) - both of which strongly influence SFOs and their investment strategies.

2.3.3 Entrepreneurship

Finally, this paper will analyze how entrepreneurship influences the investment strategies of SFOs. The literature already provides initial insights into entrepreneurship/entrepreneurial behavior in family firms and SFOs. Entrepreneurship in general can be defined as "how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited" (Ratten, 2023). Entrepreneurship in family firms is defined as the firm-level entrepreneurial attitudes and activities that occur when a family is considerably involved in an established organization (Bettinelli et al., 2017). That definition can also be applied for FOs. For business-owning families, entrepreneurship is defined as growing wealth and protecting shared wealth through business value creation (Berent-Braun & Uhlaner, 2010). Family businesses, and therefore most likely SFOs, need to possess a certain level of entrepreneurship in order to adapt to changing socio-economic conditions (Roure et al., 2013). One of the key challenges for SFOs is to keep the entrepreneurial spirit alive. They need to foster entrepreneurship in future generations to keep wealth and families together for longer periods of time. They must counteract the tendency for the entrepreneurial spirit to disappear (Schwass et al., 2011). This tendency can also be observed in the different generational perceptions of the FOs entrepreneurial behavior. The first generation (which may or may not include the founder) perceives the FO as more entrepreneurial than the second or later generation (Welsh et al., 2013). Although the successors need to develop into competent owners to keep the entrepreneurial spirit alive (Schwass et al., 2011), T. Zellweger and Sieger (2010) argue that this does not mean that the entrepreneurial orientation (EO) has to be at a permanently high level in all aspects.

2.4 Conclusion of existing Literature

Reviewing the given literature, it becomes obvious that SFO are very heterogeneous, as each family has individual investment needs and preferences. However, research has also shown that factors such as family influence, governance and entrepreneurship can influence the investment strategy of SFOs, albeit to varying degrees. The three selected factors all influence each other to some degree, so it is important to consider all three holistically to best understand their influence on investment strategy. As Gallo and Kenyon-Rouvinez (2005) note, good governance can lead to clarity within the family. Greater clarity within the family can lead to a greater sense of purpose, allowing the family to provide better leadership to the SFO, which in turn can create more opportunities to add value to their wealth and to society (Amit et al., 2016).

3 Methodology

The following chapter describes this study's methodology. More specifically the research approach, interview method, questionnaire development and sample.

3.1 Research approach: Grounded Theory

The main objective of this research is to understand and highlight the influence of governance, families and entrepreneurship on the investment strategies of SFOs. The Grounded Theory Method (GTM) was chosen as the most appropriate research approach. GTM was famously developed by Glaser and Strauss in the 1960s and has become one of the most prominent research approaches for qualitative research (Mey & Mruck, 2010). The purpose of an exploratory investigation is to gain a clearer understanding of how to frame the problem, identifying relevant data, and developing insights into significant relationships (Corbin & Strauss, 2008). This means that theory can be derived from the generation of systemically collected data. The broad research questions reflect the lack of clear literature on the factors influencing the investment strategies of SFOs.

3.2 Interview Method

To gain a comprehensive understanding of SFOs, their investment strategies, and the influence of governance, family, and entrepreneurship on these strategies, 17 semi-structured interviews were conducted with members of various SFOs. Semi-structured interviews were chosen for two reasons: it makes the interviews comparable and secondly, it allows the interviewees to deviate from the questions if they want to touch on points that have not been considered (Adeoye-Olatunde & Olenik, 2021). This method allows the researchers to collect subjective opinions as well as a wide range of opinions, which was also achieved by the number of experts selected. The interviewer did not influence the experts in any way before, during or after the interviews. The interviewer asked questions at certain points to better understand important messages. All 17 interviews were conducted online using the Microsoft Teams video call feature. They were recorded and transcribed by Teams, with one exception where the video call was recorded on a cell phone due to a lack of recording capabilities on Microsoft-Teams. The transcripts from Microsoft Teams did not meet the requirements, so the interviewer used another pay-per-use transcription AI (Trint). All interviews were conducted between 23.05. - 02.07.2024. The average interview duration was 42 minutes.

3.3 Questionnaire

A central questionnaire was used for all interviews, with a total of 20 questions, the last being an extra question that was only asked if there was time left. The purpose of the questionnaire was to make answers comparable and to provide structure within the interview. The questionnaire can be divided into four sections: (1) Governance Impact - 2 questions, (2) Family Involvement - 4 questions, (3) Entrepreneurship - 4 questions, and (4) Investment - 10 questions. Before the official part of the interview began, a brief introduction to the topic was given and the experts were asked in which language the interview should be conducted, either German or English. All interviews were conducted in German with a translated version of the questionnaire, as the original questionnaire was in English. After ensuring anonymity, the recording was started and the interview began. Upon completion of the interview, the recording was stopped and the interviewer explained the next steps and offered to send each expert the results of this study upon completion. Most experts had not seen the questionnaire prior to the interview and only learned about the topic of the interview from the email invitation. In two cases, the questionnaire was sent out in advance to allow potential experts to decide if they wanted to participate. Following the pre-defined questions, participants were given the opportunity to provide additional information that had not yet been asked. The questionnaire is included in the appendix.

3.4 Sample Description

The initial goal was to interview approximately 15-20 experts. Experts in this case are defined as either family members or employed family officers working in an SFO. The focus on SFOs was necessary to better understand the influence of the family, their level of entrepreneurship, and their governance. Recognizing the challenge of conducting 15-20 interviews with experts from SFOs, the option of including experts from MFOs was considered if not enough SFO experts could be found. Fortunately, enough experts from SFOs were found, seventeen to be exact. All seventeen experts worked for German SFOs, with the exception of one who works for an SFO based in Switzerland. The selection criteria required that the interviewees hold a managerial position in the SFO because of their knowledge of the investment strategy and their connection to the family. Of the 17 interviews conducted, five were with family members working at the SFO, while the remaining participants were family officers with no blood ties to the family. 13 of the 17 interviews were conducted through a contact of the VUFO (Association of Independent Family Offices). The remaining four came through various other contacts. Although there were no criteria to deliberately make the sample heterogeneous, it ended up being quite heterogeneous. It would have been inappropriate to establish more criteria and reduce the sample size even further.

The sample is heterogeneous in terms of the age of the SFOs, their size, the generation they serve, and whether their family manages or employs external family officers.

3.5 Analysis

Qualitative content analysis according to Mayring (2010) was used to evaluate the fully transcribed, qualitatively semi-structured interviews. The qualitative content analysis method uses a framework that allows statements to be categorized according to defined criteria (Mayring & Fenzl, 2019). In accordance with the exploratory research approach of grounded theory, the categories were not defined in advance and an inductive category formation was carried out.

4 Results

On the basis of the literature review and the questionnaire the results can be clustered into four different categories: (1) Family Governance Influence, (2) Family Impact, (3) Entrepreneurship and (4) Investment strategy. As described in the methodology, 10 of the 20 questions are related to these potential drivers of investment strategies, while the other 10 questions focus on the existing investment strategies of the SFOs. To maintain anonymity, all questionnaire respondents are now referred to as E1, E2, E3, ..., E17. "E" stands for expert, while the numbers 1-17 represent the number of each interview.

4.1 Governance Influence

The first two question aimed to find out what the status quo is regarding the existence of governance, especially the existence of a family governance.

4.1.1 Existence of Family Governance

As explained in 2.3.1. *Family Governance*, family governance is a mechanism to strengthen family unity among themselves and to increase professionalism, among other things (Gallo & Kenyon-Rouvinez, 2005). Of the 17 SFOs analyzed, only 5 families had a written family governance (E2, E9, E14, E15, E17). The other thirteen families didn't have anything written down. Corporate governance existed in all of the SFOs studied, due to its regulatory and legal importance. The reason why family governance, unlike corporate governance, doesn't exist is primarily because the families don't see the need for it and therefore don't see the importance of it. The families' goal is usually to transfer wealth to the next generation, and this mindset is usually so embedded in them that they don't need full-fledged family governance (E1). In addition, the families behind the SFOs are in most cases still relatively small and in their first or second generation (E4). There are a few exceptions to the rule, but generally these two factors are the reason for not having a governance. Another reason given for not having a family governance is when the owner/principal is operationally active in the SFO (E7). Experts have responded to the question regarding a family governance as seen below:

> "We have an incredible trusting relationship. This also means that I am trusted with to such an extent, that we don't need this written down." – E13

> "We also have a vision and, derived from this, a strategy and an SAA. These are all rules that we live by, but are not cast in legal documents." – E14

> "In the future, we'll create a structure, a family holding company, in which the children are involved, including the allocation of voting rights. At the same time, a written family governance will also be established." – E10

Even though most families did not have a family governance, almost a third wanted to address this issue in the near future, seeing an emerging need due to a growing family, especially when the next generation comes of age (E5, E6, E10). Those families who had a governance were at least in their second or third generation if not later generations. No founding generation that was interviewed had a family governance. This suggests that families that have grown over generations have seen the need to increase professionalism and thus developed a family governance. Not to forget, that this issue was not only initiated by the families themselves, but also, in a few cases, requested by the family's external management (E6, E8). They have come up with it because they see it as their task to make new proposals to the family, to keep them informed and up to date.

4.1.2 Governance influence on Investment Strategy

As shown earlier, the majority of families, at least in this sample, do not have a written family governance that could potentially influence investment strategy. In these cases, the influence of their family governance on their investments is non-existent. Only three families indicated that they have actively excluded asset classes from their scope of interest. The reasons for excluding asset classes vary. E11 stated that asset classes that pose a threat to the family's reputation are excluded. E17 argued that those asset classes that are too heavily regulated are excluded from the investment strategy. This can be explained by the fact that in this particular case, the SFO only does DEI as a majority owner. This makes it very complicated as an owner if the industry is highly regulated. Lastly, E14 explains that some asset classes are simply not suitable for the strategy they have derived from their vision. Although there are only a few family governances, doesn't mean that other families don't have underlying investment guidelines that they follow. Because of their small family size, they have a verbal agreement or an underlying understanding of what their investment strategy should be. This is especially true when the SFO is still in the first and/or second generation. The asset classes in which to invest are highly dependent on the interests and professional background of the owners, as stated by the experts below:

Table 3: Sample Description

SFO	Founding Year	Family Business still owned	Industry of Family Business	No of employees	Which Gen is active / served	Interview Duration
1	2011	Yes	Media	3	First Gen	41min
2	2015	No	Retail	7	2 – 3	40min
3	2002	No	Coffee, Chemical & Retail	50	1 – 2	44min
4	2019	No	Convenience Food/Logistics	10	3 - 4	49min
5	2019	Yes	Automotive	3	1 - 2	62min
6	1996	No	Consumer Staples	5	4-5	56min
7	2018	No	Venture Building	11	First Gen	29min
8	2022	Yes	Logistic	1	1 – 2	34min
9	2014	Yes	Automotive	10	2 - 3	41min
10	1990	No	Tobacco	8	2 - 3	35min
11	2011	No	Mechanical Engineering	10	2	35min
12	Late 1970s	Yes	Steel	3	10-11	42min
13	2017	No	Automotive	2	First Gen	52min
14	2022	Yes	Microphone / Music Industry	1,5	3	24min
15	2006	Yes	Chemicals / Consumer Goods	15	4 - 6	57min
16	2016	Yes	Paper Production	4	2 - 3	43min
17	2010	Yes	Retail	22	5	22min

> "And yes, I will say that we haven't written anything down concerning topics that are particularly important to us, because that is almost a prerequisite for us to know that. We know what makes the rest of the family tick, what is wanted, what is not and why." – E4

> "This is about preserving assets, and then of course it is also about how the assets can then be passed on to the next generation and the generation after that in a sensible way. Yes, but that is at least the goal of this whole thing." – E8

> "Family governance forms the basis. It's like a pyramid with certain specifications, (...) how you want to act, what you want to pursue. You could almost say it's like the constitution" – E9

While most families don't have family governance, that doesn't mean they don't have written policies. In some cases, families have developed investment guidelines. These investment guidelines are subject to change, much more so than family governance, but they provide direction on how strategic asset allocation should be executed. Summarizing the findings on the impact of family governance, 12 out of 17 SFOs report that family governance has no impact on their investment strategy.

4.2 Family Impact

Family influence varies widely among SFOs. Several factors contribute to this heterogeneity, including family size, generation, and involvement in the SFO. The questionnaire asked three questions about the family's influence on the SFO and its investment strategies.

4.2.1 Influence on Investment Decisions

The first question sought to determine whether family members have operational influence over investments. In this context, operational influence refers to active participation in deal sourcing, due diligence, decision making, and negotiation. If a family member has a seat on the board of the SFO and is only involved in the decision making process, then the family member is not considered to have operational influence on investments. To avoid confusion, the family always has the decision-making power in all of the SFOs surveyed. This makes it clear that the family always has the greatest influence on investment decisions. However, this doesn't mean that they have operational influence. In fact, in 6 of the 17 SFOs, the family has no operational influence at all, as seen in the two excerpts below:

> "One of them (family members) is on the Board of Directors (...) but (...) we have a clean governance and he can then exert his influence at the respective interfaces. (...) But as I said, you can't just come in and shout in his opinions. We try to maintain a relatively high level of professionalization." – E11

> "No, operationally I would say no. Because, as I said, that's my job, to look for the investments, to present them. And the family makes the final decision. A formal decision, but it's not involved operationally anywhere." – E2

In contrast to the above-mentioned SFOs without operational influence, SFOs with operational active family members typically have significant influence over investment processes and decisions. One limitation is that when an SFO chooses to outsource services to a wealth or asset manager, he or she relinquishes control over the final decisions, even though he or she had full authority in selecting the asset manager (E1, E13). Beyond these outsourcing limitations, operational family members contribute significantly to investment processes and decisions.

> "So the employees only do that up to a certain point. Then there's usually a call with the people responsible and my father and me. Then there's always a multi-stage process anyway. And then we actually take a look and in most cases my father and I make the decision." – E4

> "Operational influence on investment decisions? Yes, of course. So my father is the one who ulti-

> mately decides whether a deal is done or not. I make the presentation. I have the right to make suggestions, so to speak. And then he decides." – E5

> "I think that always depends on how much passion there is for the topic in question (...), as well as the details of the investment ticket." – E7

4.2.2 Families' involvement in SFO Operations

In all cases, the family is represented in the family office, either through active involvement in the operations of the SFO or by holding board seats that oversee the SFO. If family members wish to be actively involved in the SFO, they usually need to obtain the approval of either the board of directors or the family itself. There are many questions that should be considered when deciding whether a family member should join the SFO. The most important thing for families to determine is whether they should allow family members to become operationally active, or whether they should only allow them to become board members. Not surprisingly, one of the few commonalities among all SFOs is that all the experts interviewed stated that family members are allowed to work for the SFO. Since the sole purpose of an SFO is to serve the family, it is essential that they are involved. Only one SFO doesn't allow family members to be operationally active (E15). This is because the family is so large that members join the FO on a voluntary basis. Other family members decided to join an MFO or to have their own asset manager. This case is special because this SFO operates more like an MFO, having more of a client-service provider relationship, exclusively offering these services to family members. Even board members do not know how family members invest and cannot dictate a strategy that is binding on all members. Aside from this particular case, the arguments for allowing family members to participate in the SFOs operations can be divided into three main reasons: a high level of trust, complementary skills and mindsets, and ownership.

> "The decision-makers of the Family Office are actually all family members, so there is a basic level of trust." - E4[1]

> "In principle, the family is allowed to work there or even the spouses of shareholders. Why is that? I think primarily because the skills hopefully and ideally complement each other well. We have a spouse of one of the shareholders who is responsible for the foundation issues. But he does this primarily because he comes from this area." - E16[2]

> "I would be very happy if you could continue this, because it. Later, one way or another, for biological reasons it will pass to them. These assets will be passed on to the children and of course I think it's nice if they know what's there, what you have and that you can take care of it and deal with it." - E10[3]

Even if they allow operational engagement of the family members, there are certain reasons why they do not have any operational members as of right now.

> "But I know, and this is another one of those unwritten rules, that it is not wanted by the shareholders (becoming operationally active as a family member). So if someone wants to work in the family office, then in principle they have to apply. Then he really has to convince all the shareholders." - E12[4]

> "They are allowed to do everything, but some of them don't have the time or they don't have the energy to deal with all the issues. But of course they can get involved as much as they want." – E14[5]

It can be assumed that theoretically allowing members to work for the SFO, but not actually wanting them to do so, is intended to reduce the risk of family conflict between active and non-active members. Of the 15 SFOs that allow operational involvement, two have decided not to allow spouses of business family members to become operationally active due to bad experiences in the past (E2,13). Other families have established a structured process to ensure that the next generation can only join the SFO if they meet certain predefined criteria. Ensuring that only family members with the appropriate skills work for the SFO is a way of maintaining professionalism and improving performance.

> "Nobody works here simply because they have the right surname. They also have to have the right skillset. It doesn't make sense for anyone to take on a role that they can't fulfill in terms of their competencies, and that's how it's defined." – E11

> "Of course, we have defined that the advisory board must then decide whether the next (gen) one is allowed in here, whether they are qualified. We deliberately left that up to an external assessment. But we were always of the opinion that we had to make it possible." – E17

4.2.3 External Management Influence

The influence of management on investment decisions is undeniably strong. This raises the question of how external family management influences the investment strategy and objectives of SFOs. An external manager in this case is an SFO manager who is not related to the owner family, whereas

[1] All experts have family members in their management
[2] All experts have family members in their management
[3] All experts have family members in their management
[4] Both work in SFO without operationally active family members
[5] Both work in SFO without operationally active family members

a family manager is related to the family either by blood or by marriage. Generally speaking, the goal of an external manager is not much different from that of a family manager. Both are trying to achieve the goals set by the owning family. Depending on the owning family, this may be primarily risk-return (E7) or simply preserving wealth for the next generation (E1). The sample of SFOs consists mainly of external managers. As shown in Figure 4, in 13 cases an external manager is employed as CEO, while only 10 SFOs have a family manager.

In general, the influence of external management on the investment process is significant, as all potential investments presented to the family go through them. Even though the final decision is made by the family, risk affinity or risk aversion as well as professional background play a significant role in the selection of an external manager. Different professional backgrounds lead to different focus areas for external managers. For example, one external manager describes the excellent reporting that the SFO has established since he was hired. This is due to his background as CFO of the family business that was sold (E13). Another explains that the primary asset class they invest in is liquid assets. This is due to his background in banking as a financial advisor (E8). The reasons for having an external manager vary. In a few cases, the new CEO of the SFO was previously the CFO of the family business. The change in position occurred either because the business was sold or because the family wanted the CFO to be the new CEO of the SFO (E13, E14). In other cases, external management was brought in to mitigate potential conflicts within the family (E5). Another reason for appointing external managers is to advise the family on its investments and work closely with it to determine the best possible SAA (E2). However, the primary motivation, among all the reasons mentioned, is to increase professionalism, increase expertise, and help the family achieve its goals in an efficient manner (E1, E3, E4, E11, E13). For this reason, some SFOs outsource investments in certain asset classes (E1, E8). External management has a strong influence on investment decision as seen below:

> "And my elaborations are also very strongly followed. But the final decision, is as always with the family. Yes, as I said, my suggestions are almost always followed. (...) I then explain why we would do something, but the final decision lies with the family." – E8

> "For example, when I make a new investment, it usually has to be approved by the family. In practice, however, it works like this: I do my job, present the investment, and the family nods. So we don't start discussing four different alternatives. Because that wouldn't work." - E2

> "We now have a new managing director, brand new, um, who is a confidant of the family. And it's very good for me to have someone neutral with whom I can talk and who also has a bit of influence on my father. So that helps us to become more professional." – E5

External managers also challenge the family's decisions, be it about investments or other activities. In some cases, they even act as guardians of the family's governance, holding the family accountable for what they have written down for themselves (E11).

4.3 Entrepreneurship

Before any Family Office is established, a (family) business has existed. Depending on the SFO, the family business still exists or it has been sold. Depending on the SFO, the family business still exists or has been sold. In this study, it is almost an even split with 9 out of 17 still owning their family business (E1, E5, E8, E9, E12, E14, E15, E16, E17). In these cases, the majority of the family business has been in the family for at least two generations (E9, E12, E14, E15, E16, E17). In the remaining eight cases the enterprise was sold (E2, E3, E4, E6, E7, E10, E11, E13). In nine SFOs, at least the second and third generations are served, if not in some cases even later generations such as the 10th and 11th (E2, E4, E9, E10, E12, E14, E15, E16, E17). Research has stressed the importance of entrepreneurship in the family (Schwass et al., 2011; Welsh et al., 2013).

4.3.1 Acting Entrepreneurial

Although entrepreneurship is important in the family business context, it doesn't automatically mean that it is equally important for SFOs. When asked if the SFO is entrepreneurial, the majority answered yes. In fact, 12 of the 17 respondents said that they would consider their SFO to be entrepreneurial (E1, E2, E3, E4, E5, E6, E7, E11, E13, E15, E16, E17). The reasons are as individual as the families. Of the 12 SFOs who think they are entrepreneurial, only 3 have the same explanation for why they think they are entrepreneurial (E5, E6, E11). All the others have different individual explanations. This means that there are ten different reasons for 12 SFOs. The reason why the three SFOs consider themselves entrepreneurial was that they do DEI, i.e. they invest directly in companies. Other reasons were that they are structured like a holding company and employ accountants, controllers and tax specialists (E2). Making bold investments, competing with other asset managers, being far-sighted, and the family still being active in the business are other explanations for why they consider themselves entrepreneurial (E4, E13, E15, E17).

> "If you define entrepreneurial as a personal commitment, also to achieve a return on investment and attain inner values, then I would say we are active." – E1

> "You have to be brave and sometimes worry and venture into uncertain waters. We have now also done this in various investments and securities." – E4

Table 4: SFO Sample Management structure

	Management consists out of:		
SFO	**Only Family Managers**	**Family & External Managers**	**Only External Managers**
1	x		
2		x	
3			x
4	x		
5		x	
6		x	
7		x	
8			x
9			x
10	x		
11			x
12			x
13		x	
14			x
15			x
16		x	
17	x		
Total	**4**	**6**	**7**

> "I would say yes. Because we are open to the family. But we are not a mandatory event. That means we are in competition with other smaller family offices, that family members who are not customers of ours, have built themselves." – E15

The other five said they didn't think they were entrepreneurial (E8, E9, E10, E12, E14). Despite the fact that most SFOs invest in private equity, many even in DEI, doesn't mean that they are active in the companies they invest in. This is one of the reasons why some SFOs say that they don't act entrepreneurially because they only invest and do not become operationally active. In most cases in direct investments, SFO do not become operationally involved because they lack the time and personal resources (E9, E15). Some also considered themselves as administrators. They stated that they are not entrepreneurial, but only managers of the family wealth with the aim of transferring it to the next generation (E14).

4.3.2 Fostering Entrepreneurial Spirit

Keeping the entrepreneurial spirit alive across generations is essential for SFOs to grow or at least maintain the family's wealth and, secondly, to keep the family together across generations. As Schwass et al. (2011) argue, families and their SFOs must counteract the natural tendency for the entrepreneurial spirit to disappear. Often, especially in smaller families, the entrepreneurial spirit is fostered through conversations around the dinner table as the family sits together. These informal exchanges are particularly useful when the family business is still in existence because of its entrepreneurial nature. Apart from that, there are no active policies or programs to increase the entrepreneurial spirit in the next generations (E2, E3, E6, E7, E9, E10,). Another non-active way of fostering the entrepreneurial spirit is for parents to live and lead by example (E1, E4, E5, E10). That way, the next generation gets a good understanding of what it means to be entrepreneurial. In some cases, the SFO and the family do not do enough to counteract the trend of declining entrepreneurial spirit. This is usually the case when the family grows and members have only occasional contact with the SFO or the family business, resulting in a declining entrepreneurial spirit (E9,12).

> "The family exemplifies this - managing to pass on entrepreneurial thinking to the next generation in a casual way." – E6
>
> "There are shareholder meetings, but it's still not enough. You have to bring people and the next gen closer to counteract the estrangement. It's not enough for the family to get bigger and bigger" – E9

The fact that the majority of SFO-owning families do not take active steps to support or encourage entrepreneurship does not mean that there are no ways to actively promote the entrepreneurial spirit within the family. There are several ways to encourage entrepreneurial thinking and behavior in the family, especially among the next generation. To not only foster the entrepreneurial spirit but also to get to know the business better, parents take their children to the family business or other businesses in which they have invested (E8, E14, E15). This not only stimulates curiosity but also gives the next generation insights into different businesses. Another way to encourage entrepreneurial thinking is to participate in various networking events. There are many family business events that allow family members to interact with other business families and discuss current challenges or best practices. They also provide a platform to learn about various topics, usually including, among others, legal, business, sustainability workshops. In some cases, the SFO provides opportunities for family members to become more entrepreneurial, either by allowing them to invest themselves or by offering workshops to educate family members (E10, E11, E16).

> "So we are there exactly once a year at our family business. (...) Yes, and then there are factory tours in all languages throughout the three days and so my children know the company and know how the cars are built, know who the managing directors are (...), because the whole management team is there." - E5

> "The family members themselves have the opportunity to take a certain allocation from the big pot and do something themselves and are actually encouraged to do so." – E11

> "And then along this whole topic of family management, which also goes a bit in the direction of shareholder "Now gen - next gen" education, always with the educational offer behind it, so to speak. The tax consultant (...) tried to address the whole topic of retirement and precaution planning in a nice way." – E16

4.3.3 Entrepreneurial spill over Effects

As mentioned above, the family has an obvious and significant influence on the decision to invest in the SFO. Can the same be said of the family's entrepreneurial spirit? Can this spirit also be found in the SFO, or is there even another case where the entrepreneurial thinking of the SFO is transferred to the family? In only two cases did the experts state that there were no spillover effects in any direction (E2, E8). Apart from these outliers, other experts stated that there are indeed spillover effects. The most common way in which the family's entrepreneurial spirit is transferred to the SFO is through an operationally active family member. In all these cases, the entrepreneurial spirit of the family is transferred to the SFO and influences its decisions and goals (E3, E4, E5, E9, E10, E13, E15). In cases where the family isn't entrepreneurially active, the experts struggled to find an appropriate answer. Generational changes and their level of entrepreneurial thinking also have significant spillover effects. If a generation is less entrepreneurial, this is often reflected in the SFO and its goals (E12). It has been argued that SFOs need only a very limited amount of entrepreneurial spirit, as they do not build or develop anything, but rather act as investors, investing in asset classes (E14).

4.3.4 Influence of different Risk affinities on Investments

Risk affinity or risk aversion determine which investments should be considered. High return equals high risk, low risk equals low return. High risk aversion may exclude investment in some asset classes due to their volatile and therefore risky nature. As risk preferences are very individual, it is reasonable to assume that there is a wide range of preferences, especially within families and between generations. That doesn't mean they can't be clustered. Often, general risk tendencies tend to be similar across generations, resulting in greater risk differences between generations than within a generation. The majority of experts surveyed agreed that the influence of different risk preferences on investment decisions is significant. This study found that the next generation's risk affinity is higher than the old generation's due to a more pronounced entrepreneurial mindset (E2, E4, E11, E12, E15). Three others have found that the old generation has a higher risk affinity due to their entrepreneurial behavior (E3, E5, E6). One role of SFOs is to mitigate different risk preferences and to moderate between family members or generations. Even if there are different risk preferences, they still have to reach a consensus. One way to do this is to allow members to invest small amounts in asset classes of their choice. This allows them to satisfy their risk preferences, which makes them more likely to agree on other, larger investments where the SFO needs the consensus of the entire family.

> "He has a completely different risk profile due to his life experience, a much more resilient one or even than his children. (...) The children didn't build it up like that, thus they are more cautious and prefer to say (...), we've taken over a huge fortune here and of course we don't want to destroy it." – E3

> "One has a little more risk appetite and the other less and you have to balance things out. Perhaps even allow a small playing field for one or the other" – E14

> "I believe that the children tend to be perhaps even a little more willing to take risks. It's always a compromise or a consensus between the generations." – E12

However, there are also differences in risk preferences within generations that significantly influence investment decisions. This research has shown that between spouses (both operationally active), the wife is always more risk averse, while the husband has a higher risk affinity (E1, E10, E17). Only two experts stated that there is only a small influence of different risk preferences on the investment decisions of SFOs (E2, E9). Two others couldn't answer because they have very small families with no more than two members, or because they are first generation, and the children are still in their infancy (E7, E13)

4.4 Investment Strategy

In order to draw conclusions about how governance, families, and entrepreneurship influence investment decisions, it is essential to understand what the strategic asset allocation looks like today, why SFOs have invested in these asset classes, and what criteria they use to identify potential investments.

4.4.1 Asset Classes

The obvious reason for diversifying a portfolio is to reduce risk and thus the impact of poor performance of a single investment. It also minimizes volatility and provides the opportunity for growth and increased returns (Reinholtz et al., 2014). In addition to these commonly known reasons, there are more subtle and individual motivations for SFO's strategic asset allocation. To better compare the asset allocation of SFOs, the focus is on all assets except the family business. This is because in some cases the family business is sold or not included in the SFO, while in other cases it is considered part of the strategic asset allocation, making it the largest and most important asset.

As shown in Exhibit 5 below, all SFOs are invested in private equity. Liquid assets are the second largest asset class with 15 out of 17 SFO having invested in it. Real estate is the third largest asset class, with 13 SFOs having invested in it. These three asset classes are by far the most dominant, with 12 SFOs having invested in all three. Only a few SFOs have invested in forestry & agriculture, cryptocurrencies, sustainable assets and alternative assets. For the purposes of this research, cryptocurrencies have been separated from liquid assets due to their highly volatile nature and therefore high risk profile. Taking a closer look at which asset classes have the highest allocations, this research found that it is fairly evenly distributed. Four respondents indicated that real estate was their primary asset class, six indicated that PE was their largest asset class, and seven indicated that they invest primarily in liquid assets. One expert didn't want to comment on their primary asset. Apart from a few exceptions where SFOs have invested in the Philippines or the United States, the primary geographic focus of investments is the DACH region.

There are several reasons why an SFO has chosen its asset allocation. The most important reason, applicable in 11 out of 17 cases, is historical development (E1, E2, E3, E4, E7, E8, E9, E10, E12, E15, E17). The second most common reason for the chosen asset classes is diversification to reduce risk (E1, E5, E6, E9, E14). Potential returns (E1,E7, E11, E14) and stable cash flows are the third most common reason for asset allocation (E5, E6, E11, E13). Other reasons for SAA include: family interest (E10, E15), expertise of the family's external managers (E3, E8), following the endowment model[6] (E11, E16), and finally, sticking to what they know (E4, E7).

> "They were simply already there. It has grown historically" – E12

[6] *The endowment model relies on building a diversified portfolio of investments with low correlation to minimize risk and optimize returns, and an asset allocation that favors asset classes with high expected returns and avoids those with low expected returns regardless of liquidity. This tends to favor private investments due to their illiquidity premium against fixed income and commodities. Investments may still include publicly traded stocks and bonds, but the lion's share would be in private market assets, such as hedge funds and private equity (The Family Office, 2022).*

4.4.2 Emotional Attachments Influence

Analyzing the data provided for the selected asset classes, the question arises as to whether some assets are included in the SAA because of their emotional importance to the family. Do emotions play a role in the SAA, and if so, what types of assets are typically involved? In this case, what emotional attachment means is that SFOs will hold or buy assets even if they don't meet the expected return. The majority of SFOs experience that the family's emotional attachment to certain assets leads to investment decisions that wouldn't have been made from an economic point of view. On the other hand, emotional attachment is also important because it gives the family a sense of identity. This sense of identity can often fade over generations. So an asset that has a high emotional attachment will keep the family together. In most cases, families are attached either to real estate (E1, E8, E9, E12, E13, E14) or to businesses in which they have invested directly (E3, E4, E10, E14, E15, E17). Assets are not sold because of their importance to the family's identity. Although these assets may not be as profitable as the other assets, they are often relatively small assets that have a small impact on the overall SAA.

In cases where the family doesn't have an emotional attachment, they all have in common that their primary asset class is not real estate, but rather PE and liquid assets (E, E2, E6, E7, E11). The family's self-image also plays a role in its emotional attachment. If the family sees itself as a catalyst for building and growing the business with the ultimate goal of selling it, the emotional attachment tends to be nonexistent (E11). In order to professionalize the SFO and its investment strategy, the SFO has detached itself of real estate and let family members do it with private money to reduce the risk of potential conflicts due to the high emotional attachment (E16). The assets involved are, as mentioned above, most often real estate. Buildings that have been in the family for generations, either as private homes or as commercial buildings in prime locations in major cities. In addition, businesses that ignite passion lead to emotionally driven investments, examples include vineyards, restaurants, hotels, and furniture manufacturers. If emotional attachment has an influence on investment decisions, experts have noted:

> "It does. So I don't want to say it doesn't make sense to keep it (the business), but it is not yielding the returns that the portfolio brand can. (...). We should sell and do 100% private equity. But no, because that's the binding element." – E5

> "However, there is definitely an emotional bond with asset managers, not just asset classes themselves" – E15

> "This is still in the portfolio (assets with high emotional attachment) and is also included somewhere in the asset allocation, but not strategically relevant." – E3

Table 5: Overview of invested asset classes

SFO	Private Equity	Real Estate	Liquid Assets	Forestry & Agriculture	Crypto Currencies	Sustainable Assets	Alternatives
1	x	x	x	x			
2	x	x	x				
3	x	x	x				
4	x	x	x		x		x
5	x	x	x				
6	x	x	x	x			x
7	x		x		x		
8	x	x	x			x	
9	x	x	x				
10	x	x	x	x			
11	x	x	x		x		x
12	x	x	x				
13	x	x	x				
14	x		x				
15	x						
16	x		x				
17	x	x		x		x	
Total	**17**	**13**	**15**	**4**	**3**	**2**	**3**

= Primary asset class

4.4.3 Non-financial Criteria

The primary investment criteria are based on financial statements, including price, sales, EBITDA/EBIT, cash flow and dividends. While these financial metrics are critical, non-financial criteria can also be highly relevant in evaluating potential investments. Each individual has a unique perspective and may prioritize different non-financial factors when making investment decisions. Not all investors have them, but many do. In this case, five of the 17 experts have no non-financial criteria to consider, focusing solely on return (E7, E8, E11,E 12, E14). The other 12 SFOs have non-financial criteria, they include gut feeling, fund team composition, sustainability, reputation, identification and government regulatory framework. Sustainability is the most prominent non-financial criterion (E5, E9, E10, E16). Gut feeling is primarily related to direct investments, when meeting managers at the company (E1, E3, E5). If the investor has a bad gut feeling, he is more likely to exit the investment. It is also important because they will be working together for the foreseeable future and therefore want a good partnership with the operating managers. The composition of the PE or VC fund team also plays a role for some SFOs. What is their track record? Is the team the same as in the last successful fund? What are their incentives? All these questions need to be answered before investing in a fund.

> "But what is actually much more important is whether the team behind it fits. That is the key criterion for me when making an investment decision. The people behind it. Because that is it. It's all people's business. I'm married to the people in these closed structures for 12 or 15 years in case of doubt." – E2

Another non-financial criterion is reputation, the SFO will not invest in any assets that may cause harm to the family's reputation (E11). Other have selected governmental regulations as a criterion, causing them to ignore assets in highly regulated areas or industries such as hospitals or health care as an industry (E17). This policy is due to their strategy to only invest as majority stakeholder, which would lead to more effort to navigate those highly regulated areas as majority owner.

4.4.4 Private Equity Investments

As seen in 4.4.1. *Asset classes*, all SFOs are invested in private equity, i.e. they either invest directly in companies or in private equity or venture capital funds. 15 SFOs invest in funds (E1, E2, E3, E4, E5, E6, E7, E8, E9, E10, E12, E13, E14, E15, E16). Of these 15, eight also invest directly in companies (E3, E4, E5, E6, E7, E9, E10, E15). There are only two SFOs that focus exclusively on direct investments in companies and do not invest in funds (E11, E17). While there are many individual criteria for what constitutes a target company, there are few criteria for PE funds. Distress, Buy and Build and Secondary are among the most common PE funds, mainly focused on the DACH region. Companies that have received direct investment have met the SFOs criteria. These criteria vary greatly from one SFO to another. Criteria include industry, revenue, EBITDA/EBIT, cash flow as well as the non-financial criteria mentioned above that can be applied to direct investments. Strategies vary greatly when asked if the DEI is in a similar industry to the family business. The argument for investing in companies in a similar industry is that the family and SFO have expertise in the field. This makes it easier to assess competitors and the market. This strategy of investing in companies that are broadly in the same industry as the family business is followed by some SFOs (E4, E7). This existing knowledge about the market and competitors is also the reason why other SFOs look at other industries and do their best to stay away from the industry they once came from (E13). Of the 11 SFOs that invest directly in companies, none focus exclusively on start-ups. Five of them focus on SMEs, mainly German "Mittelstand" companies (E4, E5, E8, E9, E11). The rest have a case-by-case approach (E3, E6, E7, E10, E15, E17).

> "So we actually tend to invest at an early stage. Yes, because with these direct investments we offer this, this entrepreneurial identification space. That is what the family actively seeks as well." – E15

> "Obviously, only indirectly. Why? Because manpower and also the wish of the shareholder and partners. To put it somewhat casually, not to have to turn down every buddy they have because his coffee business in Berlin because it doesn't align with the family's goals." – E16

In general, family interest or mindset/spirit may play a greater role in PE than in other asset classes. The data suggests that the entrepreneurial spirit of the family seems to correlate with private equity investments, especially DEI. In one case, the next generation of the family is much more entrepreneurial than the older generation (E12). This new entrepreneurial influence can be seen in the SAA, as they have now started to invest in private equity and are trying to build a portfolio. Initially only in secondary PE funds, because they do not yet have the know-how, and then in the long term also in direct investments as minority shareholders in order to acquire further know-how (E12). On the other hand, we have the opposite, where the next generation is less entrepreneurial than the old generation, which leads to a turnaround in their PE strategy, slowly moving away from DEI to funds. This is also due to bad experiences as a minority shareholder in these investments and a lack of know-how (E3).

> "That was rather the father, who really invested several 100 millions in companies. His children's children probably won't do that any more, but either in smaller start-ups or via funds. That's because they say that we simply don't have this special know-how. Let's let others do it, those who are more deeply involved." - E3

Investing directly in companies is also a question of resources, especially human resources. DEIs tend to require more investor involvement than a fund. Nine would consider themselves active in their DEI by taking a seat on the board of the invested company (E4, E5, E6, E7, E8, E9, E10, E11, E17). The remaining two don't consider themselves active. The main reasons for not being more active are lack of time and staff. An edge case is that the SFO doesn't take board seats in the invested companies due to lack of time and personnel, but had to make an exception because the investment grew so much and became such a large part of the SAA that the SFO decided to take a board seat (E15). This way they can have more influence and make sure that this large part of the SAA is going in the right direction. Even though taking a board seat means having more influence, it is still limited due to the share of ownership. Five out of 11 SFOs follow a minority shareholder approach, while four decide based on the investment case. Only two SFOs follow a majority shareholder strategy (E11, E17). This can be explained by their focus on investing only directly in companies and not in funds. Analysis of these data suggests that SFOs that focus exclusively on DEI also follow a majority ownership strategy.

> "Minorities preferably 25% as a blocking minority, but rarely works because otherwise tickets would be too big." – E8

> "Always starting as a minority owner because: We actually just wanted to swim along to see how the whole thing develops, how the market develops." – E4

4.4.5 Potential Investment Scenario

Scenario 1: Mittelstand vs. Startup

Given the choice of investing in either an SME with stable earnings or a start-up with high growth potential, the majority chose the established SME with stable earnings (E1, E4, E5, E8, E9, E10, E11, E12, E14). This is in line with 4.4.1 *Asset classes*, where SFOs indicated that returns and cash flows were important decision criteria. Apart from the majority, there are a few SFOs who stated that they wouldn't invest in either company (E2, E16). This is mainly due to their strategy of not investing directly in companies.

> "Into an established company? Quite clearly. Because the ultimate goal of the family office is not profit maximization, but a broad base with a regular, reasonable return." – E8

Scenario 2: Sustainable investment vs. Conventional investment

Only three would choose the conventional asset (E5, E7, E11). Since the main goal of SFOs is to preserve and increase wealth in order to transfer it to the next generation, it is not surprising that most of them chose the sustainable, long-term oriented asset. In both scenarios, there were two SFOs who explained that they would invest in both to diversify and reduce risk (Scenario 1: E3, E6 - Scenario 2: E1, E8). Four others didn't want to specify which asset they would invest in because it depends only on the return and not on the sector or size.

> "Also very clear along our investment strategy. The first alternative. Long-term multi-generation investments is the approach that we choose. We are aware of the responsibility we have as an investor in investments. So definitely the first one." – E16

4.4.6 Change of Strategy

Investment strategies are developed by the family and family advisors together. Ideally, the strategy is not changed, but rather the goals are achieved and afterwards anew strategy is developed. So what factors would lead to a change in investment strategy? The vast majority of experts indicated that the main reason for changing or abandoning an investment strategy is due to geopolitical or macroeconomic reasons (E1, E2, E3, E7, E8, E9, E14, E15, E17). Only three respondents indicated that a generational change could lead to a change in the investment strategy (E10, E12, E16). As noted above, the influence of a highly entrepreneurial next generation is significant, leading to an adjustment in investment strategy to include PE, which was not previously included.

4.5 Summary of Findings

Reviewing the collected data, it becomes obvious that each SFO has an individual twist on how they are doing things. Different levels of family involvement and entrepreneurship make each investment strategy different. The biggest trends found in this study is that private equity is the most popular asset class, in which all participants have invested in. Another trend is that all experts, except for one special exception (E15), have stated that family is allowed to become operationally active. If external managers are employed or certain investment outsourced, then the reason for that is to leverage their expertise and become more professional. Those SFO whose management is only made out of family members all have rather small families, in most cases just the parents and their kids. Husbands have a higher risk affinity then their spouses, allowing them to split their task. The husband deals with more entrepreneurial assets while the wife focuses less on entrepreneurial assets. The enormous heterogeneity and the many individual cases restrict often times from being able build patterns. An example for the heterogeneity, E13, explained that there is no next-generation following this generation. Thus making the overall goal of wealth transfer to the next generation obsolete. It also makes questions about risk or entrepreneurship difference between generations obsolete.

Regardless of all exceptions, the findings on the influence of governance, family and entrepreneurship on the investment strategy can broadly be summarized in this framework, as seen in Exhibit 1 *Overviewing Influencing factors* below. This framework doesn't include all influencing factors but gives a glimpse of how and to what extent each factor, influences the investment strategy.

5 Discussion

5.1 Theoretical Input

The data collected and generated in this study can be embedded and used to support existing theories or bring new insights to the existing literature. These links are made to emphasize the theoretical contribution of this thesis to the existing literature. In true exploratory research fashion, no hypothesis could be verified or falsified. This study supports the contention that SFOs are highly individual due to the nature of their ownership (each family is different). The results suggest that family governance, family involvement and entrepreneurship are not equal in their influence on SFO investment strategy.

Family governance has the least impact on investment strategy. Only five SFOs had family governance, and only three of them excluded certain asset classes in their family governance. Even though they excluded certain assets, none of them put a focus on the asset classes they wanted to invest in. It became clear that for the vast majority, family governance does not play a role in the investment strategy. T. Zellweger and Kammerlander (2015) argue that different family preferences and interests require family governance to align family interests. Some of the interviewed families support this argument by explaining that they will develop a family governance in the next few years, when the next generation comes of age. This is not surprising, as research has shown that family governance is essential to keeping the family together in the long term and to mitigating conflict (Gallo & Kenyon-Rouvinez, 2005).

The family's influence on investment decisions is obvious; not only do they decide whether to make an investment, but they also develop the strategy or co-develop the strategy in the case of an external family manager. In either case, the overarching strategy is developed by the family or parts of the family. According to Sanchez et al. (2018), external family managers are more risk averse than the family. The results of this study partially support this thesis. 60% of external managers indicated that they are more risk averse, while 40% indicated that they have a higher risk affinity than the family. Analyzing the generated data, there is evidence that supports the theory that family involvement is higher in families with fewer generations than in larger families with many generations (Amit et al., 2008). To the best of the authors' knowledge, the reasons for hiring an external manager in SFOs haven't been researched. Initial data suggests that the main reason for hiring an external family manager is to increase the professionalism of the SFO. They mitigate potential conflicts and bring a more objective view to potential investments, which is helpful when the family is emotionally attached to certain assets. To better understand family involvement, future research should include the influence of family governance on family involvement. Family governance may or may not regulate how and when a family member can become active in the SFO, either as a board member or operationally.

With an SFO managing the family's wealth, the family's influence is undeniably strong, allowing them to do virtually anything they want with it. Beyond this influence, this study suggests that entrepreneurial thinking is one of the key drivers of strategic asset allocation. The definition of entrepreneurship by Ratten (2023) and Braun & Uhlaner, (2010) is also applicable to the investment behavior of SFOs if the family itself tends to be entrepreneurial. Schwass et

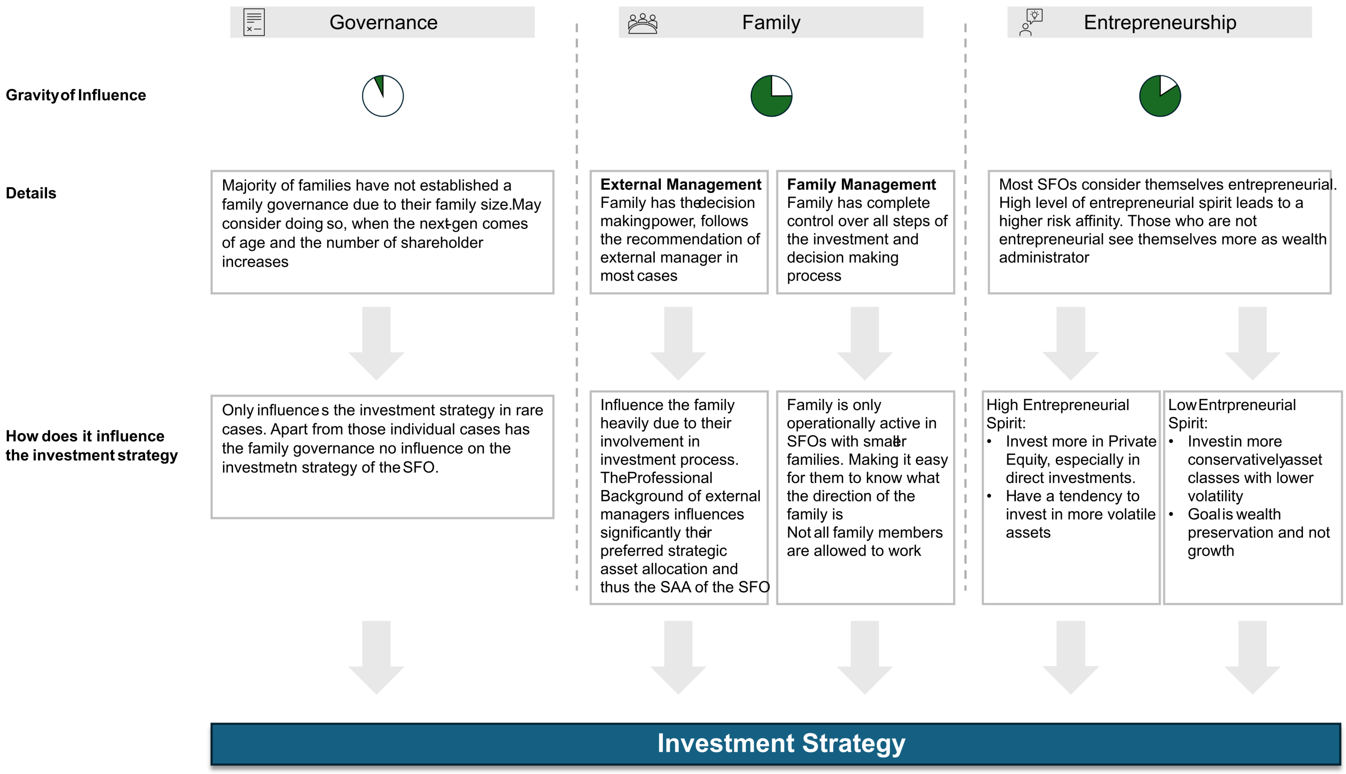

Figure 1: Overview Influencing Factors

al. (2011) explain that there is a natural tendency for entrepreneurship to disappear over the years. This theory is not supported by the data collected. The results of this research are contradictory and show that in most cases the entrepreneurial spirit in the family is stronger in later generations than in earlier generations. Furthermore, it suggests that, contrary to Welsh et al. (2013), the next generation is perceived to be more entrepreneurial than the older generations, which makes the SFO act more entrepreneurial as well. The ways in which families or SFOs promote entrepreneurship vary greatly. The majority of families have no active steps planned to foster entrepreneurial thinking in the next generation. Only a few families actively involve the next generation in the SFO, the family business, or investee companies. This lack of active promotion of entrepreneurship suggests that fostering an entrepreneurial spirit is not as important to families as research suggests it should be. The higher level of entrepreneurship in later generations is a testament to that. In order to keep entrepreneurship alive in the family it is important to make sure that family members are not just dependent on dividends from the SFO, but also have an occupation that forces them to be entrepreneurial to some degree. With a higher entrepreneurial spirit comes a higher affinity for risk, which allows SFO to invest in asset classes that were considered too risky by the previous generation. Reinforcing the point that SFOs can be entrepreneurial in seeking opportunities to not only preserve wealth, but also to grow it.

The primary goal is to transfer the family's wealth to the next generation. SFO investments must meet both financial and non-financial criteria. Gomez et al. (2007) mention that in addition to financial criteria, SFOs also have non-financial criteria, unlike other institutional investors. The non-financial criteria found in this study are different from those found in the literature and include much more than socio-emotional wealth endowment. The findings are consistent with those of T. M. Zellweger et al. (2013), that although non-financial goals are important, SFOs are not self-sacrificing in their financial goals. The theory of Block et al. (2019) can be supported that the majority SFOs prefer to invest in profitable companies rather than high-risk, high-growth companies. As mentioned earlier, risk affinity is not decreasing, on the contrary. The next generation has a higher risk affinity because they are more entrepreneurial, so the theory of Welsh et al. (2013) that later generations invest more conservatively cannot be supported. All SFO that invest in highly volatile assets such as crypto are in most cases SFOs with later generation on the helm. Analyzing the SAA, it becomes clear that Rouvniez & Park's (2020) statement that private equity (including venture capital) will become more important can be supported. Risk mitigation as a driver for a diversified portfolio can be found in the existing literature Rivo-López et al. (2017) as well as in this study.

5.2 Limitations

Although the study was carefully designed and focused on scientific rigor, several limitations must be considered when evaluating the results. In addition, this work offers several avenues for future research.

The focus of this study was on German SFOs. This focus relates to a relatively small number of SFOs that can be analyzed. Future studies can either explore SFOs in the DACH region to broaden the scope of potential participants, or go a step further and expand the focus to Europe. Getting 17 SFOs to participate in this study was an achievement considering the time frame given for this thesis. However, increasing the sample size would allow the study to better identify and analyze trends. Another limitation is the reluctance of SFOs to participate due to privacy concerns. Anonymity was guaranteed and yet some SFOs decided to withdraw from the interview after already agreeing to participate.

Secondly, semi-structured interviews have several limitations. The questionnaire may not have phrased the questions in such a way that participants fully understood what they were being asked. Also, the way the interviewer asked the questions or phrased subsequent questions may have been misleading. The translation of the questionnaire into German can lead to mistranslations where important points are lost. An interviewer's bias could also lead to withholding information or giving answers that are not entirely true but would confirm an opinion (Salazar, 1990). The translation of quotes has been done as accurately as possible, but could also lead to mistranslation. Regulations and requirements allowed only one person to work on this study, meaning that the author was involved from the design of the questionnaire to the evaluation of the results. This limits the objectivity of this study.

Future areas of research may focus on the following topics:

1) How can the "now-gen" help the next generation build the right skill set to become knowledgeable owner (-operators)?

2) Do SFOs have to diversify their investments more internationally to better compensate the risk of geopolitical uncertainty?

3) How are SFOs balancing financial returns with social and environmental goals and what factors drives their decisions towards more responsible impact investing?

4) Will emerging technologies in the field of fintech, AI, blockchain become an integral part of SFOs investment strategy?

6 Conclusion

The purpose of this research was to shed light on the investment strategies of SFOs and how they are influenced by family governance, family influence, and entrepreneurship. Due to the exploratory nature of this research, the goal was not to develop recommendations for SFO managers, but rather to add new insights to the existing literature. There are many factors that influence investment strategy, most of which have not been sufficiently explored by researchers. This study provides an initial overview of how the SAA is related to family governance, the family itself, and the level of entrepreneurship within the family.

While SFOs vary widely in size and services, they all follow the same principle: to preserve and grow family wealth for transfer to the next generation. Some take a more conservative approach, focusing on asset preservation, while others take more risk to grow their wealth. However, the ultimate goal remains the same - transfer to the next generation. Not only is wealth management an integral part of the SFO, but it also serves as a unifying factor for the family. Especially in families where the business has been sold. Later generations will not have experienced the feeling of owning a family business, so it is even more important to have an anchor for the family to maintain its identity as an entrepreneurial family. In those cases where the family business still exists, the emotional attachment and source of identity is not the SFO, but rather the family business.

The results show that the three selected factors have some influence. Statistically, family governance doesn't have much of an impact. On the other hand, on a case-by-case basis, it is clear that in some cases family governance has a significant impact on the overall investment strategy. The influence of the family, even with external management, cannot be underestimated due to its position as the owner of the wealth with total decision-making power. Finally, the influence of entrepreneurship, or lack thereof, has a significant impact on the SAA due to the risk profile associated with it.

Analyzing only three factors leaves out many other potential influencing factors. It is likely that there are many more, most of which are highly individual, depending on the family. Again, the old adage comes to mind: "If you have seen one family, you have seen one family office". Highly individual factors do not allow for a broader comparison, contrary the selected three. The lack of comparability and the strong need to keep things private lead to little exchange between SFOs. In general, managers of SFOs are very interested in seeing how other SFOs operate and what kind of investment strategies they have. This study provides a first look by comparing investment strategies, explaining how they came about, and how they are currently influenced.

Apart from external factors such as geopolitics, the main reason for SFOs to abandon or change their strategy is when the next generation enters the playing field and becomes more active. Despite not aiming to provide recommendations for actions, SFOs should interact with the next generation early on. Engaging with the next generation is important to build skills, but also to understand what the next generation's mindset is, what kind of vision they might have in terms of investment strategy.

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