ENTREPRENEUR WEALTH MANAGEMENT

PERSPECTIVES AND PRACTICES

Research Report

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A. INTRODUCTION

Entrepreneurs are celebrated world over as wealth creators and drivers of socio-economic progress within their home economies and worldwide. They are change agents who take calculated risks to seize opportunities to create new ventures and grow existing ones, thereby growing their own and their nations' wealth. A June 2013 research report by Barclays Wealth Insights titled *The Changing Order of Wealth Creation*, reveals that "entrepreneurship is the most prevalent source of global wealth." Among the report's key findings are that:

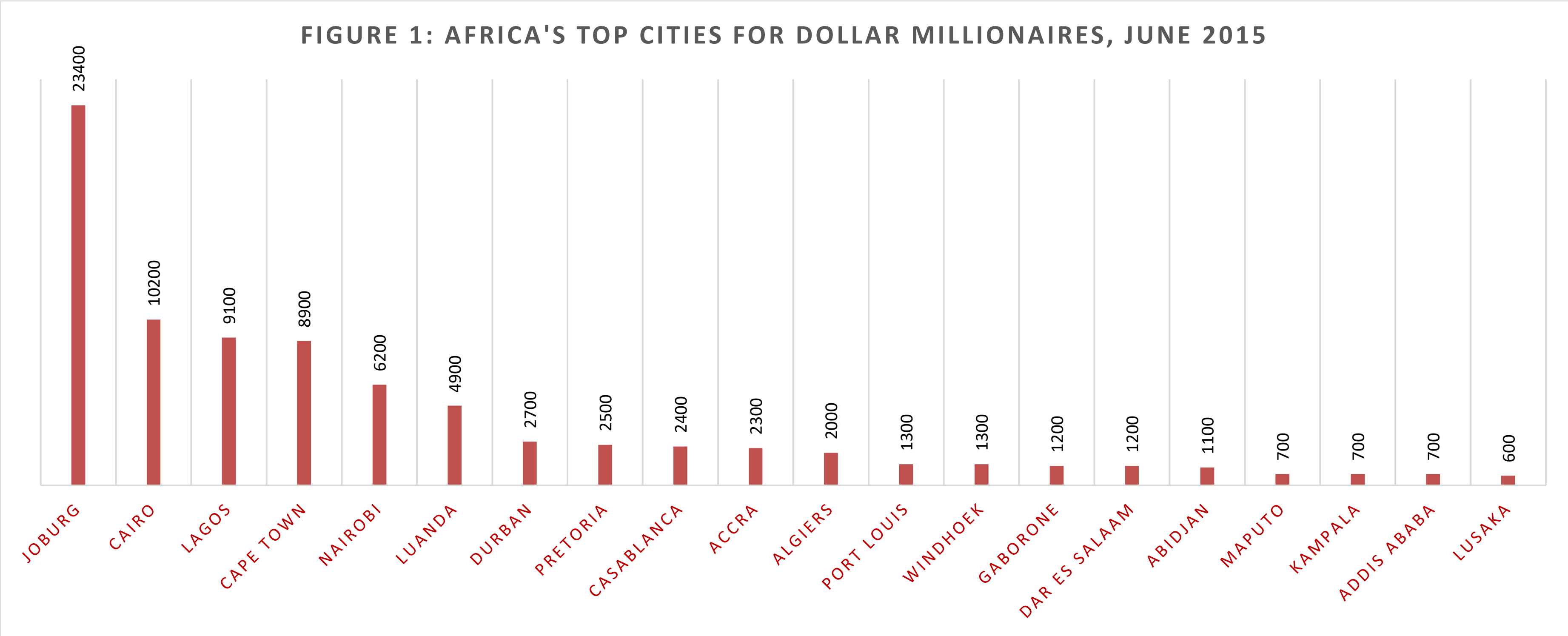
a) Amongst high net worth individuals (HNWIs), entrepreneurs and business owners accumulate their wealth over 16 years on average, compared to 23 years for other HNWIs

b) More than two-thirds (68%) of South African HNWIs participating in the study attributed most of their wealth to entrepreneurship, compared to inheritance which was cited by just over one-third of the respondents

c) Entrepreneurship plays a key role in the global wealth shift as HNWIs in developing markets are more likely to have earned their wealth from a business and/or business profits than those in more developed markets

A 2014 article titled "The rising HNWI profile in Africa" reports that "the amount of HNWIs on the (African) continent grew by 3.7 per cent from 2012 to 2013, while Africa's investable wealth rose by 7.3% to $1.3 trillion"[1]. The article quotes real estate consultancy firm Knight Frank's estimate that the number of Africans with $30 million in assets is set to grow by 53 per cent before 2023, outpacing the rate of growth worldwide. Citing global consulting firm Capgemini's *New World Wealth*, a recent article published in *City Press*[2] ranks the City of Johannesburg as by far Africa's leading home city for dollar millionaires, followed by Cape Town, Durban and Pretoria among South African cities. On the rest of the continent Cairo (Egypt) comes a distant second after Johannesburg, with Lagos (Nigeria) ranking third (figure 1).

[1] Sarah Owermohle, CPI Financial, http://www.cpifinancial.net/featurers/post/28393/the-rising-hnwi-profile-in-africa, Tuesday 23 September 2014
[2] Sunday, 6 September 2015



Source: Adapted from *City Press*, 6 September 2015

African entrepreneurs, Owermohle reports, tend to keep all their wealth in the business itself, which carries significant risks. She quotes a South African wealth management expert saying:

> *It is important for those with newfound wealth to understand the risks of having all their wealth in their own company. Not only should they look to diversify away from the fortunes of a single business, but also the risks of one particular economy or currency.*

Owermohle's article also cites a study undertaken by Capgemini, which found that 42 per cent of African and Middle Eastern HNWIs prioritise the accumulation of wealth over its preservation, pointing to a need for education and advice to enable them to handle their wealth better. The article cites the Capgemini report thus:

> *The research reveals an implicit, though often unidentified, need for education and advice among HNW business owners across these developing regions, as their businesses expand and their personal wealth accumulates.*

Positively, Owermohle cites a Standard Chartered survey that found that among all the HNW business owners surveyed,

> *African participants…have become increasingly aware of a need for professional advice on portfolios and wealth management.*

B. PURPOSE AND NATURE OF THIS STUDY

Despite this rapidly growing phenomenon of Africa's entrepreneurial HNWIs there is hardly any research, both in South Africa and elsewhere, focusing on entrepreneurs and how they manage their wealth, which goes beyond the creation of wealth. Entrepreneur perspectives on and practices relating to the management of their wealth is therefore a largely unknown subject. As a result, the majority of entrepreneurs fall beyond the radar of traditional wealth management professionals, leaving a potentially vast market untapped. This study aims to close this knowledge gap, and hopes to contribute towards and to inform a conversation with Africa's growing entrepreneurial class on matters of wealth management, a need identified by a South African wealth management practitioner cited in Owermohle's article:

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From an African perspective, it is quite clear that … a lot of focus, for now, tends to be on generation of wealth rather than the preservation thereof. Bringing African HNWI into the conversation about smart wealth management will be increasingly important as the pool of African millionaires grows.

The study, being the first of its kind that we are aware of that focuses exclusively on South African entrepreneurs, is exploratory in nature. It seeks to identify key issues in entrepreneurs' perspectives and practices in managing their wealth. To frame the content and subject scope of the study, two frameworks based on two books on the subject were followed.[3] The frameworks focus on the wealth management process and wealth management personality profiles as presented in the table below. The characteristic behaviours of the different wealth management personalities are presented in table 5 later in the report.

TABLE 1: FRAMEWORKS FOR THE STUDY

WEALTH MANAGEMENT PROCESS	WEALTH MANAGEMENT PERSONALITY PROFILES	
• INVESTMENT CONSULTING	• FAMILY STEWARDS	• MOGULS
• WEALTH ENHANCEMENT	• INDEPENDENTS	• VIPs
• WEALTH TRANSFER	• PHOBICS	• ACCUMULATORS
• WEALTH PROTECTION	• THE ANONYMOUS	• GAMBLERS
• CHARITABLE GIVING	• INNOVATORS	
Source: *From Successful Business to Personal Financial Security*	Source: *FT Guide to Wealth Management*	

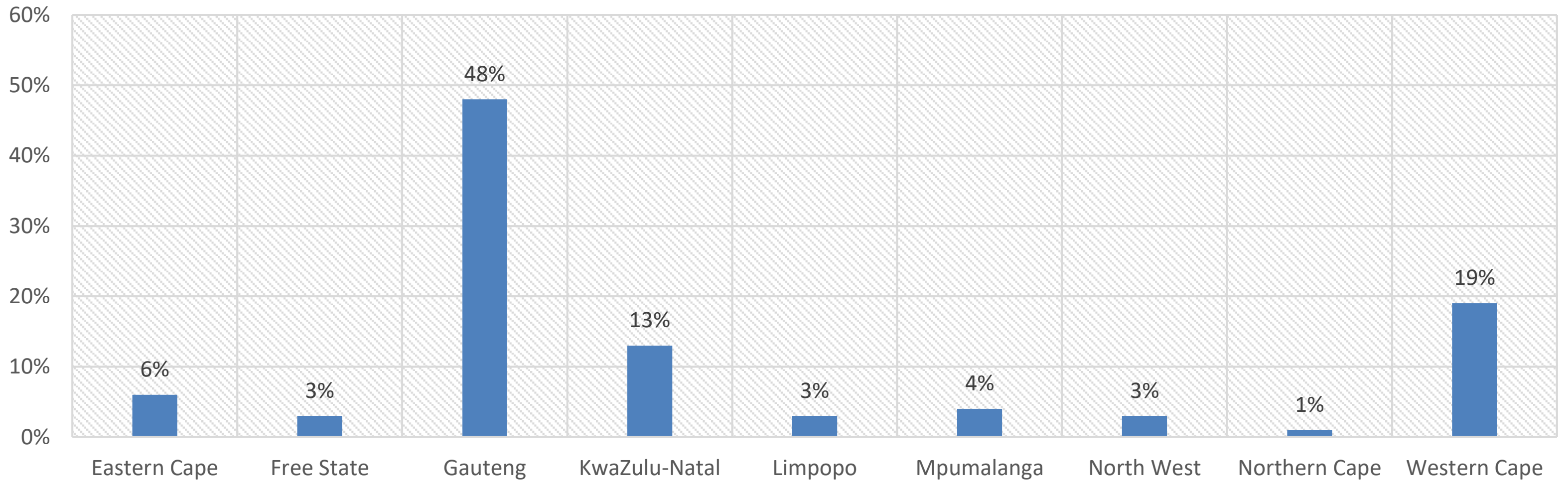
[3] Derek Mohamed, *From Successful Business to Personal Financial Security – A Wealth Management Road Map for Entrepreneurs* and Their Families and Jason Butler, *FT Guide to Wealth Management: How to Plan, Invest and Protect Your Financial Assets*, 2011.

C. STUDY METHODOLOGY

1. STUDY DESIGN AND GEOGRAPHIC SCOPE

The study was exploratory in nature and followed a survey design. Data was collected through a combination of literature review[4] and interviews with a sample of entrepreneurs and wealth management practitioners within the Gauteng province. Gauteng was chosen for two reasons. The first was a pragmatic reason to contain the overall cost of the study, given its exploratory nature, by limiting it to only one province. The second is literature that indicates that the majority of the country's entrepreneurs are based in the province (figure 2).

FIGURE 2: GEOGRAPHIC SPREAD OF SOUTH AFRICAN FORMAL SECTOR SMES



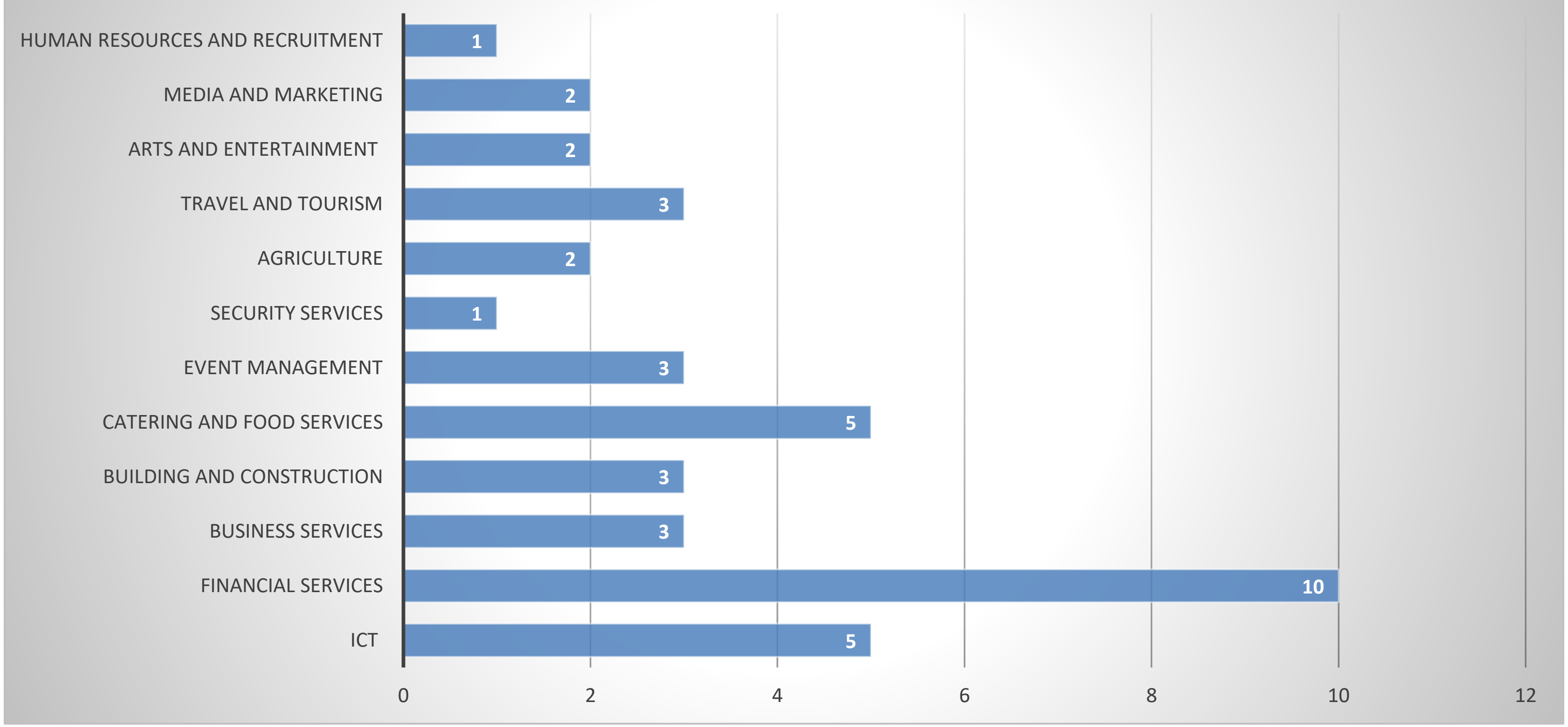
Source: *Review of Small Business in South Africa*, the dti, 2008

[4] In addition to the articles and FT guide mentioned earlier, the book, was reviewed.

2. SAMPLE CONSTRUCTION AND DATA COLLECTION

Interviewees were selected mainly from the Shanduka Blackpages, which lists entrepreneurs by sector and province. The sample was supplemented through a snowball technique where previously-selected entrepreneurs could not be reached or were not available to be interviewed. A semi-structured questionnaire, based mainly on the frameworks referred to earlier, was used for the interviews. Face-to-face interviews were conducted with a total of 40 entrepreneurs in different sectors, as shown below.

FIGURE 3: ENTREPRENEUR INTERVIEWEES BY NATURE OF BUSINESS



3. STUDY LIMITATIONS

This study has two limitations. First, it being exploratory in nature, the study has a small sample of respondents – a total of forty entrepreneurs. While this number is considered sufficient for purposes of analysis, it is not representative of the broader population of business owners, and was not meant to be. The main implication of this is that the results of the study, while providing useful insights into the subject matter under investigation, cannot be generalised to all business owners.

Second, a total of seventeen wealth management practitioners were approached to participate in the study. All, with the exception of three, declined to participate, citing either unavailability, or confidentiality of their operations, or the fact that the sponsors of the study were their competitors. When it became clear that ongoing attempts to secure willing institutional respondents were causing excessive delays to the study, the research team decided to discontinue the effort. While the reasons for non-participation cited by this group may be valid, their unwillingness to participate is an important finding of the study in its own right: it indirectly confirmed the research team's hypothesis that established wealth management firms are more focused on serving high net worth individuals with significant assets to invest, and less so on owners of small businesses, who have lower investible assets (see table 2). This may point to the existence of a potentially lucrative opportunity for wealth management firms that are prepared to work with small business owners from the bottom up and build long term relationships with them.

D. RESULTS AND ANALYSIS

1. INSTITUTIONAL INSIGHTS

As mentioned in the discussion above, three institutions participated in the study, with fourteen declining and citing various reasons. The responses from two of the three responding institutions confirm our hypothesis that perhaps an unstated reason for institutional unwillingness to participate in the study is that they generally don't target small business owners with their services. These two respondents, both large wealth management institutions, reported that they do not target small business owners directly. Consequently, their overall responses did not contribute much to the study. The third institution is involved in savings and financial education and does target small businesses. However, because its offerings are not specifically of an investment or wealth management nature, its responses too did not benefit the study much. The most relevant observations made by the three institutions concerning small businesses are presented in table 2.

TABLE 2: INSTITUTIONAL RESPONSES ON SMALL BUSINESS AND WEALTH MANAGEMENT	
INSTITUTION A	1. There is a lack of understanding of the investment needs of SMEs and how best they would like to engage with the wealth management industry. The general perception is that there is a greater need for credit and financing than for investments within the SME space.
	2. Road shows and financial education sessions are deemed to be the most appropriate forum and platform to engage SMEs. This is due to the complex nature of the industry and the multitude of needs it caters for and the propositions it offers.
	3. We think SMEs by nature do not spend sufficient time and energy on long term financial planning, and as a consequence, miss out on opportunities on offer from the wealth management industry. Wealth management is a long term game, and the perception we have of the SME segment is that not enough of that market is into long term financial planning.

INSTITUTION B	1. The general response of entrepreneurs (to financial literacy and financial management training) is positive and very encouraging. Most entrepreneurs are interested in financial wellness and financial management.
	2. Wealth management service fees are prohibitive for small SME owners. Another problem is the perception that SME companies will mainly fail so (wealth management) product providers tend to wait for successful entities.
	3. SMEs prefer easily accessible products. They don't have resources to chase providers and prefer products brought to them.
	4. Due to lack of financial education, most entrepreneurs are wasteful and extravagant when they have access to significant cash. There is a consumer culture amongst this group and this results in poor financial decisions made.
INSTITUTION C	1. Entrepreneurs in the SME market are mostly in the building phase (of their businesses) and generally do not have liquidity to invest. 2. Their businesses are often giving them better returns than the market can.

2. ENTREPRENEUR PERSPECTIVES ON WEALTH MANAGEMENT

Interviews with entrepreneurs started by exploring their perspectives on wealth management. In essence, this part of the study sought to gauge respondents' understanding of wealth management generally, and of key elements of wealth management. The study started off by examining what respondents associated the concept and practice of wealth management with. As the responses to the question, "**When you hear mention of wealth management, what does that immediately conjure up for you?**" show, the majority of respondents associate wealth management with investments and personal financial management / decision-making (boxes 1 and 2).

BOX 1: INVESTMENTS

- Investments
- Cash and investments
- Investments and finance
- Long term investments
- Management of investments
- Financial advice and investments
- Managing your wealth with maximum investment returns
- Investments and savings, avoiding unnecessary expenditure
- Financial planning, investments and retirement savings
- The growth and protection of my investments whether it's a house or money. It is also about sustaining my income to live a better life
- Investments and professional service that helps you to manage everything that encompasses all of one's financial life

BOX 2: PERSONAL FINANCIAL MANAGEMENT

- The planning and strategy around managing the finance and resources for future growth and sustainability
- Being able to take sound financial decisions and best way of managing your assets
- How you manage your finances going forward, growing and sustainability thereof
- Assistance in how to manage your finances
- Managing one's finances
- Managing your empire of riches
- Good management of finances
- Income or finance management

In third place wealth management is associated with money and saving, lifestyle and personal financial freedom and independence (box 3). Only two respondents associated wealth management with legacy and wealth transfer (box 5). Charitable giving as an element of wealth management did not receive any mention.

BOX 3: MONEY. LIFESTYLE. FREEDOM

- A lifestyle of being rich and living a high standard of life
- Independence and generational prosperity
- Money, savings and business expansion
- Efficient and economic spending
- Elitist, private bankers, quality life
- Building an empire of wealth
- Being financially literate
- More than a millionaire
- Financial freedom
- Money or capital

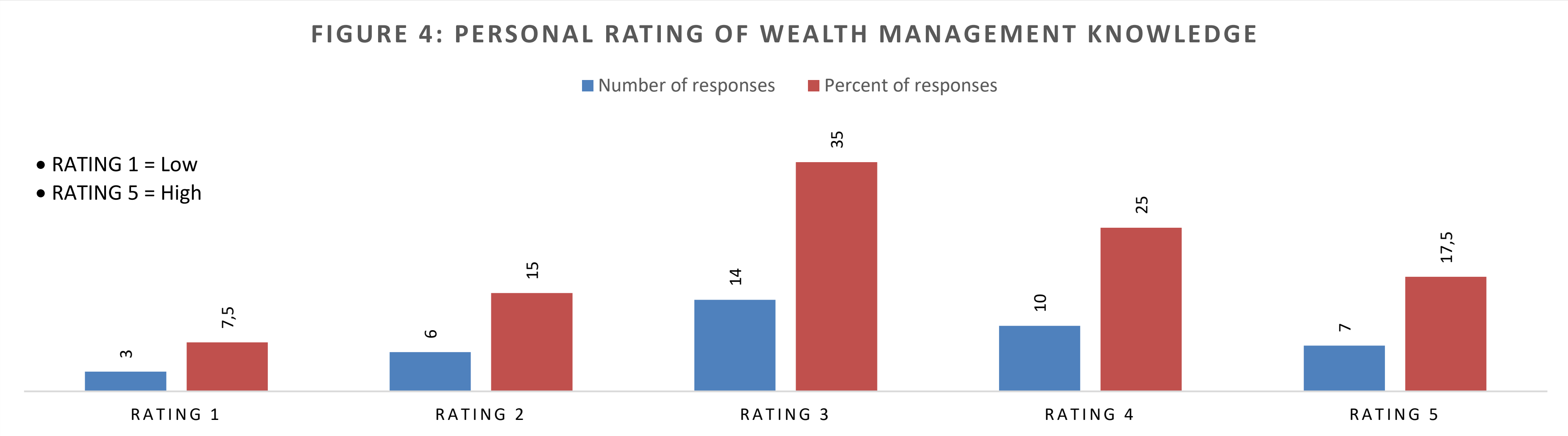
BOX 4: WEALTH CREATION

- It means that I should first and foremost create wealth before it can be managed, you cannot manage what you do not have, so for me wealth management speaks to the fact that as an entrepreneur I should first work very hard to become wealthy.
- Creation of wealth, management thereof and sustaining it for a longer period
- Accumulated wealth that needs to be sustained

BOX 5: LEGACY

- Wealth management implies future investment and legacy planning
- Preparing for the next generation, putting correct structures for my next generation not me

More than one-third of respondents (35%) gave average rating to their general knowledge of wealth management. Overall, those giving their wealth management knowledge a rating of 1 to 3 (low to average) constituted 57,5 per cent of respondents. Only one-quarter gave their wealth management knowledge an above average rating and 17,5 per cent gave themselves a high rating. The higher number of respondents giving themselves lower knowledge ratings points to a potential need for general education on wealth management – what it is and its importance. The purpose of such education would not be to make entrepreneurs experts in wealth management or practitioners in the field, but to give them general knowledge of wealth management and, more importantly, the appreciation of its importance and the key elements to it. Such knowledge would enable them to make informed wealth management decisions.



While the overwhelming majority of respondents recognise that wealth management should be an important concern for an entrepreneur (a combined 92% agreeing with the statement), and just over half (a combined 52% disagreeing with the statement) disagree that entrepreneurs tend to attach more importance to the creation of wealth than its management, nearly three-quarters (73%) acknowledge that the practice of wealth management is neglected by most entrepreneurs. Underlining this observation, a combined 77 per cent of respondents affirmed the view that entrepreneurs are too busy running their businesses to devote time to wealth management.

Fifty-two per cent of respondents believe that wealth management is a concern for only established businesses, rather than start-ups. Lastly, just over half of the respondents (55%) confirm the view expressed in an article cited earlier in this report, that entrepreneurs believe their businesses are the best place to invest their wealth. These findings point, firstly, to an opportunity to respond to the perceived importance of wealth management and the acknowledgement that entrepreneurs are time poor and therefore generally neglect wealth management, by offering them professional wealth management services. Secondly, as pointed out earlier, the belief that wealth management is a concern only for established businesses rather than start-ups and that the business itself is the best place to keep all of one's wealth points to a need for general wealth management education.

TABLE 3: VIEWS ON VARIOUS ASPECTS OF WEALTH MANAGEMENT

	Strongly agree [1]	Agree [2]	Not sure [3]	Disagree [4]	Strongly disagree [5]
Wealth management should be an important area of concern and focus for any entrepreneur	77%	15%	8%	0%	0%
To me as an entrepreneur wealth creation is more important than wealth management	25%	15%	8%	35%	17%
Wealth management is generally a neglected area by most entrepreneurs	38%	35%	22%	0%	5%
Entrepreneurs are generally too busy running their businesses and are not able to devote time to issues such as wealth management	40%	37%	5%	13%	5%
Wealth management is a concern only for well-established businesses and very wealthy people, not for start-ups and small businesses	27%	25%	5%	13%	30%
The best place for an entrepreneur to invest all his / her wealth is in his / her business in order to grow it	23%	32%	7%	28%	10%

Table 4 shows that entrepreneurs recognise the key objectives and elements of wealth management. Given their responses to earlier questions, for instance where only two respondents mentioned legacy and charitable giving when asked about what comes to mind when they hear the term "wealth management" (box 5) and the majority who indicated average knowledge of wealth management (figure 4), these responses might indicate that this study played some role in educating entrepreneurs about the key elements of wealth management, resulting in a shift in their responses. This may indicate that an information / education effort would be effective in shifting entrepreneurs' understanding of and beliefs about wealth management.

TABLE 4: RESPONSES TO "A COMPLETE WEALTH MANAGEMENT PLAN SHOULD ENCOMPASS":	Strongly disagree [5]	Disagree [4]	Not sure [3]	Agree [2]	Strongly agree [1]
Strategies and measures to preserve one's wealth in order to fund all of one's life's goals	5%	5%	5%	45%	40%
Strategies and measures to mitigate and minimise one's income taxes and maximise one's cash flow	12%	3%	5%	50%	30%
Measures to take care of one's family and to ensure one's end-of-life assets are distributed efficiently	7%	5%	5%	35%	48%
Measures to protect one's assets so that they are not wrongly taken and to avoid exposure to unnecessary risks that could negatively impact one's family	5%	5%	5%	35%	50%
Strategies and measures for charitable giving	8%	10%	2%	65%	15%

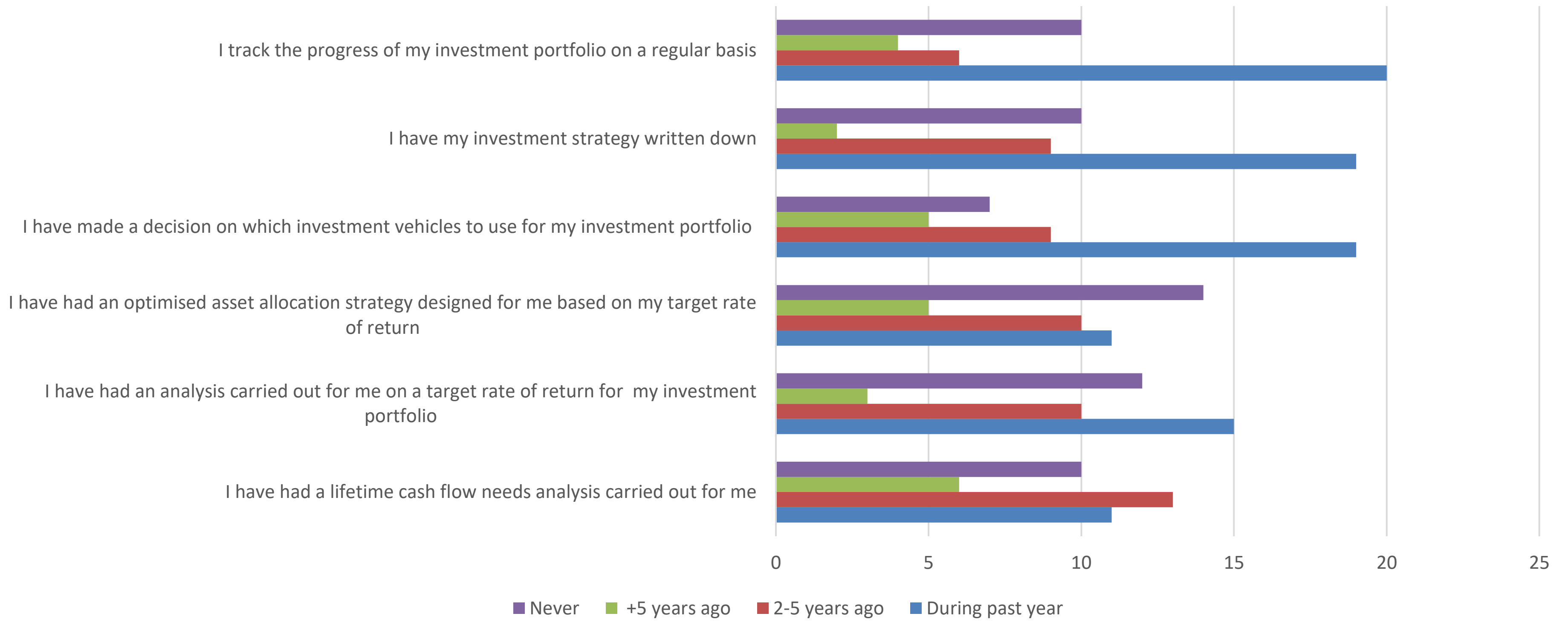
3. ENTREPRENEUR WEALTH MANAGEMENT PRACTICES

3.1 Investment Consulting

Half of the respondents report active and regular tracking of their investment portfolios, with the most recent tracking have taken place during the past year. The other fifty per cent track their portfolios more infrequently, with the larger number in this group reporting that they have never tracked the progress of their portfolios (figure 5). This finding suggests an even split between those that prefer and exercise active involvement in the management of their portfolios and those that are less active. In keeping with the foregoing finding, just under half of the respondents have had their investment strategy written down in the past year, while the rest either did so 2 to 5 years ago or mostly have never had any investment strategy written down.

Similarly, just below fifty per cent of respondents recently had a say on the construction of their investment portfolio while the balance did so sometime back or have never had a say on this decision. In summary, there is an almost even split between those who display active involvement in the planning and management of their investment affairs and those that don't. The latter group may be less active not necessarily out of deliberate preference for this approach but may be indicative of a need for education on the importance of taking keen and active interest in the management of one's investment affairs. Professional wealth management service offerings targeted at this group might need to incorporate an element of education.

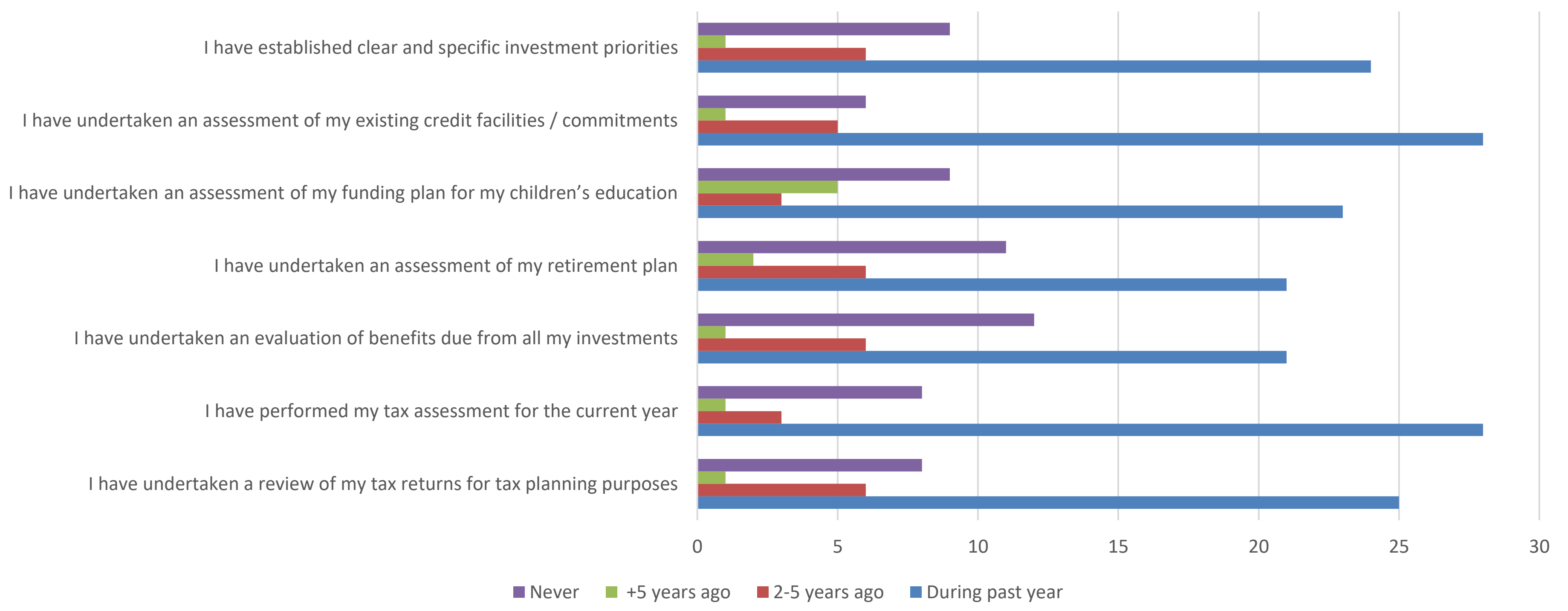
FIGURE 5: INVESTMENT CONSULTING



3.2 Wealth Enhancement

Most individuals who have used the services of a financial planner will most likely have had most of the wealth enhancement activities carried out for them. For that reason it is to be expected that most respondents would report having had wealth enhancement activities carried out for them during the past year, as figure 6 indicates. However, the relatively lower number of those reporting that they have established specific investment goals, assessed children's future education funding needs, assessed their own retirement needs, evaluated benefits due from their investments, and undertaken tax planning activities, might indicate that a certain measure of wealth management risk still exists for most entrepreneurs.

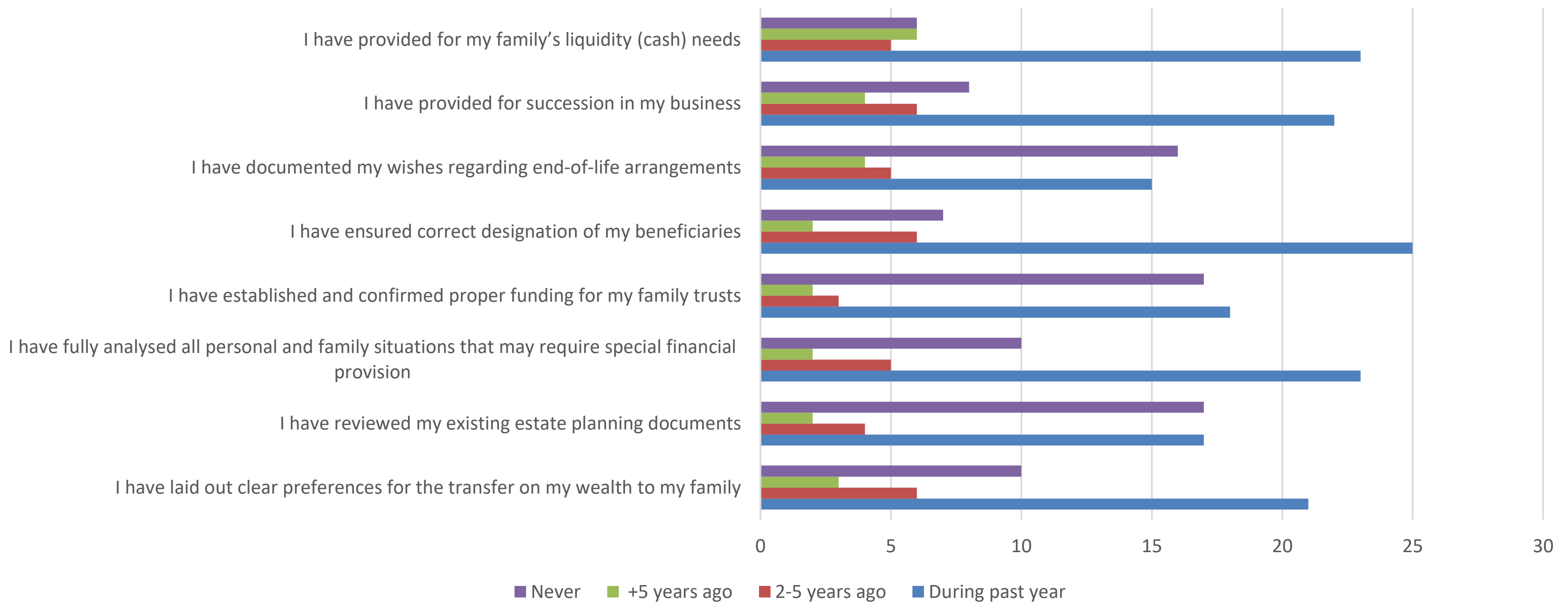
FIGURE 6: WEALTH ENHANCEMENT



3.3 Wealth Transfer

Compared to wealth enhancement, slightly lower numbers of respondents reported recent performance of wealth transfer activities, except the correct designation of beneficiaries, provision for the family's liquidity needs, and analysis of personal and family situations that may require special financial provision. All the other key wealth transfer activities, presented in figure 7, have significantly higher numbers of respondents that have not undertaken them. Once again, this may point to the need for education on the importance of these wealth transfer elements, as an important component of wealth management service offerings to this group.

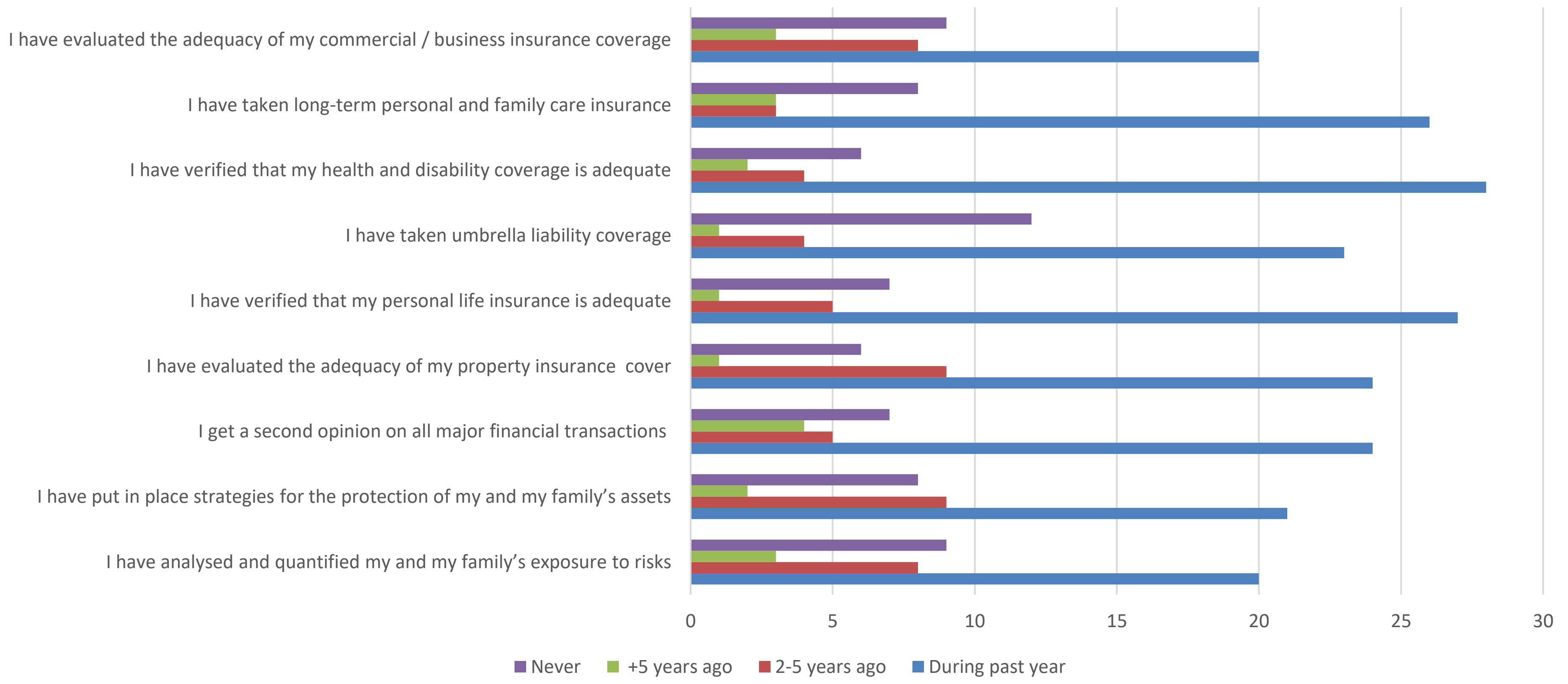
FIGURE 7: WEALTH TRANSFER



3.4 Wealth Protection

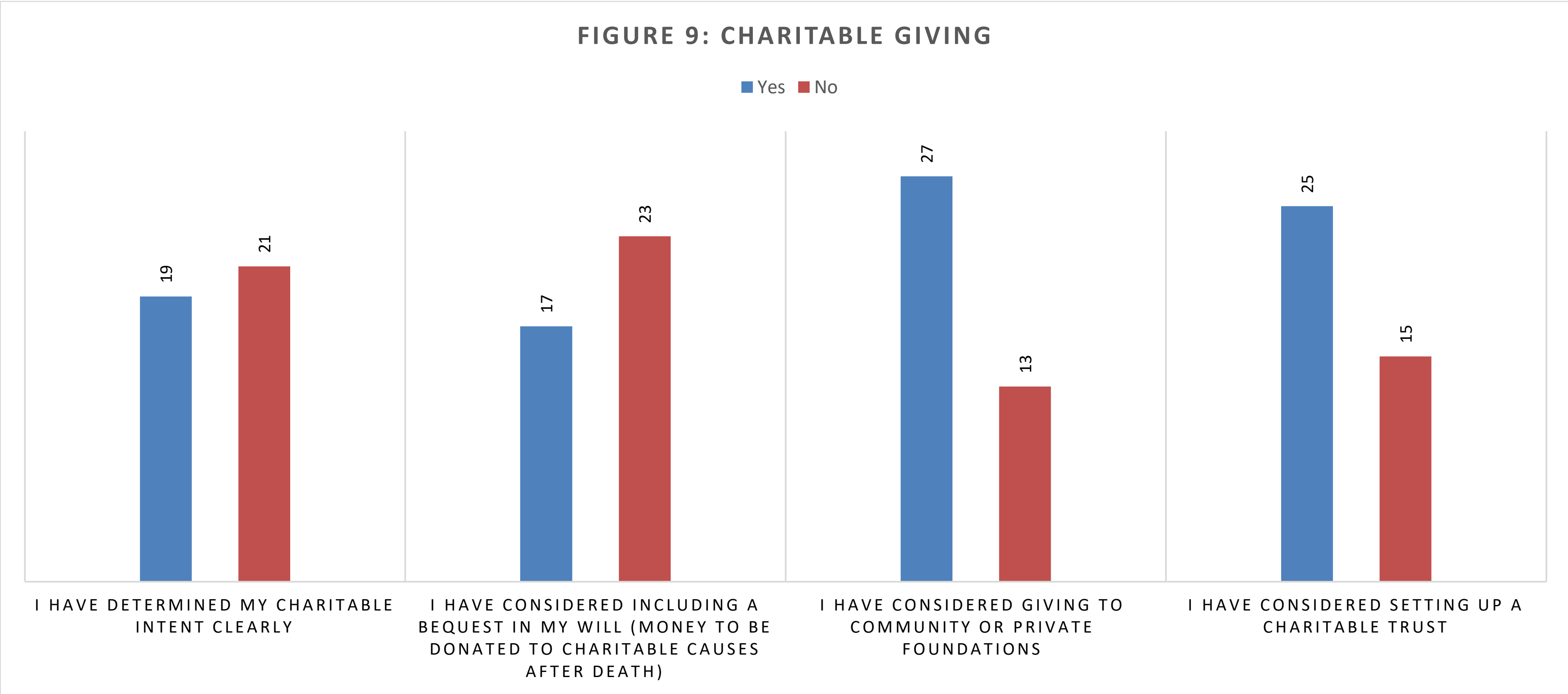
Similar to wealth enhancement, wealth protection activities feature strongly in the mix of services provided by financial planners. Most financial planners review the financial affairs of their clients regularly, most conducting this activity annually. The responses below indicate that most entrepreneurs have wealth protection activities undertaken for them, and on a fairly regular basis.

FIGURE 8: WEALTH PROTECTION



3.5 Charitable Giving

While figure 9 indicates that charitable giving features fairly prominently in the thinking of entrepreneurs, as represented by the number that reported having given consideration to giving to foundations or to setting up a charitable trust, the numbers of those who have made their charitable intent clear or have considered making a commitment to include a bequest in their wills are lower. The latter, in particular, might be an indication of the limited number of entrepreneurs who have had their wills drawn up at all, and the need for education on the importance of drawing up personal wills.



E. WEALTH MANAGEMENT PERSONALITY PROFILES

Looking at the wealth management personality profiles of respondents, as presented in table 5, reveals the following highlights:

1 The majority of respondents are focused on looking after the financial well-being of their families and have a conservative financial outlook. Notably, contrary to figure 4 where the majority rated themselves as having average investment knowledge, here a higher number rate themselves as being knowledgeable about investing.

2 The majority seek financial independence and see investing as a necessary means to achieving this objective, and show interest in the actual process of investing or wealth management. The latter group are more than those who reported knowledge about investing, indicating that interest in the investment process is to be found even among those who reported limited investment knowledge. This may point to the importance of involving clients in decisions to allocate their investments to specific products.

3 While investment knowledge might be reported to be high, and the benefits of investing and wealth management clearly recognised, there is a significant degree of phobia about wealth management and technical discussions on finances. For this reason personal trust is an important consideration in selecting a financial adviser. In other words, respondents place importance on selecting an adviser they can trust with their investment affairs given that they themselves are less keen and therefore less likely to be involved in the technical aspects of wealth and financial management. One important consideration is that the client's affairs should be kept private and the adviser should prioritise protection of the client's assets.

4 A degree of phobia regarding wealth management and technical aspects of finance, and focus on protecting one's investment assets, does not necessarily translate to resistance to innovation and lack of interest in leading-edge investment products and services. However, there's less appetite for complex products. Respondents consider themselves sufficiently technically savvy and educated to understand and embrace innovative

approaches to growing their wealth, so long as asset protection is not unduly compromised and there is no pursuit of complex products that pose undue risk to one's assets. In other words, a basic duty of care is expected while focusing on achieving investment growth through innovation.

5

Remaining in control of one's financial affairs and future, dealing with reputable financial institutions and advisers, preference for performing investments that contribute to overall portfolio growth, willingness to live below one's financial means and spend frugally in order to achieve investment growth, and a reasonable tolerance for risk are some of the key personality features reported by respondents.

TABLE 5: PERSONALITY PROFILES		
PROFILE STATEMENT	**TRUE**	**FALSE**
FAMILY STEWARDS		
My most important focus is to take care of my family	39	1
I consider myself conservative in personal and professional life	34	6
I am not very knowledgeable about investing	15	25
INDEPENDENTS		
I seek the personal freedom that money makes possible	39	1
I feel investing is a necessary means to living the life I want	38	2
I am not interested in the process of investing or wealth management	7	33
PHOBICS		
I am confused and frustrated by the responsibility of wealth	13	27
I dislike managing finances and avoid technical discussion on it	12	28
I choose my financial adviser based on my level of personal trust towards them	33	7
THE ANONYMOUS		
Confidentiality is of primary concern to me	38	2
I see personal finances as highly private matter	38	2
I prefer to concentrate my asset with an adviser who prioritises protecting them	36	4

INNOVATORS		
I am focused on leading-edge investment products and services	31	9
I am a sophisticated investor who likes complex products	19	21
I am financially technically savvy and highly educated	29	11
MOGULS		
Exercising full control of my financial affairs is my primary concern	39	1
For me investing is another way of extending my personal power	38	2
I am decisive in my investment decisions, and rarely look back	35	5
VIPs		
Investing enables me to acquire status possessions	29	11
Financial prestige is important to me	34	6
I like to work with financial institutions and advisers that have leading reputations	37	3
ACCUMULATORS		
I am focused on making my investment portfolio bigger	34	6
I only select investments that are performance-oriented	36	4
I prefer to live below my financial means and spend frugally	32	8
GAMBLERS		
I enjoy investing for the excitement of it	21	19
I consider myself to be financially knowledgeable and involved	36	4
I have high risk tolerance	27	13

F. CONCLUSION

This seminal study was undertaken to explore the wealth management perspectives and practices of entrepreneurs. It was triggered by recent international reports that show that entrepreneurship and business ownership is the leading source of wealth for high net-worth individuals and that wealth creation is growing rapidly across Africa and is projected to do so for some time to come. The finds that entrepreneurs recognise the importance of wealth management but have knowledge gaps about the process and practice of wealth management. The study also finds that by and large established wealth management firms do not target owners of small businesses with the wealth management offerings. Overall, the study points to a potentially-lucrative opportunity to provide wealth management services, including education, to small business owners.