

# THE MISSING LINK IN MANY FAMILY OFFICES IS THE FAMILY

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*Family Offices are well positioned to break out of their traditional financial management role to centrally manage strategic activities for a family. But few Family Offices make this shift to more fully serve the family. Why do Family Offices remain confined in their scope, and what would persuade them to serve a larger function in the Family Enterprise?*

Family Offices have traditionally been created to manage a family's financial affairs. But over the last decade, *some* Single Family Offices<sup>1</sup> have evolved to serve a broader role in the Family's Enterprise beyond wealth management and tax planning.

As families have become better informed about how to architect their Family Offices, a growing subset is embracing a Family Office with a larger, more pivotal role in advancing the *family's strategic goals*. By doing so, these Family Offices are strengthening the important link between the Family Office and the Family.

<sup>1</sup> This article addresses only the Single Family Office (SFO) and its needs. An SFO is a private Family Office that serves one family or branches of the same family. The article does not explore the Multi-Family Office (MFO), which serves multiple unrelated families.

## THE ACTIVITIES OF A STRATEGIC FAMILY OFFICE

Family Offices are well positioned to centrally manage many of the family's strategic activities beyond the growth of its financial portfolio. These Family Offices direct and support critical functions such as:

- Implementing the long-term goals and vision of the family
- Executing the Family Council's agenda
- Administering family governance
- Designing talent development programs to prepare the next generation (with the Family Council), and
- Other activities to improve the chances that the *family*—not just its wealth—thrives over generations.

But have enough Family Offices made this shift? Today, there is no shortage of Family Offices that still spend a disproportionate amount of their time managing only investments and financial activities, giving little attention to the higher order, strategic activities that will help the family sustain its unity, talent, and momentum alongside its wealth.

Why, then, have families not broadened their Family Office's scope to serve this larger purpose, and what can be done about this?

## FIVE COMMON CHALLENGES OF A FAMILY OFFICE

While every Family Office has a unique history and developmental trajectory, our experience in working with families and Family Offices reveals five common challenges in the maturation of a Family Office. These are often the cause of a weak link between the family and the Family Office.

1. ***Wrong jumping off point:*** A Family Office often starts as an embedded Family Office (EFO) within the family business, and becomes a separate entity when the family, its complexity, its wealth, and its risks outgrow the business personnel. As a result, it is not uncommon to see the Family Office founder first focus on setting up an office to efficiently manage investment activities, wealth structures, taxes, estate planning, and other categories of financial services that the family business' staff can manage. Most begin here rather than comprehensively tailoring a Family Office that the family actually needs.

2. *Lack of vision and mission:* One essential function of a Family Office is to accompany the family in their multigenerational journey through ways that both *respond* to concerns/requests and help *guide* the family's progress. The most effective Family Offices do both well. Too often, though, Family Office management does not see their Family Office serving this dual purpose and instead confine their Family Office to the role of reacting to principals' requests. This limitation does not benefit the family nor does it motivate Family Office management. It is the outcome of a Family Office that lacks a clear mission (purpose) and vision that takes into account the family's evolving needs. The Family Office is well positioned to understand the family well, to look ahead at the trajectory of the family, and recommend plans, scenarios, and solutions that will help the family achieve its long-term strategic goals. But it needs the mandate of a mission and vision from the family to do these.
3. *Non-financial services are missing:* The Family Office needs to invest in non-financial activities that support the family and its multigenerational continuity. These are projects such as unity-building and talent-building activities that strengthen the family and bolster its capabilities as active owners and board members. These non-financial activities also help the family through its transition to future generations, and are fundamental pillars to maintaining an enduring family. Their returns may not appear on a financial statement immediately, but they pay off over time and lead to long-term success for the family and its enterprise. Most Family Offices do not incorporate non-financial activities into their purview, but they should. The Family Office is often the right place to centrally manage and execute these activities on behalf of the family and Family Council.
4. *A holistic governance structure is absent:* In order to have an effective Family Office, the family must be aligned around creating value together. This clear direction, decisiveness, and unity among the owners is best achieved through an effective governance system. The family needs to ensure the Family Office has solid governance, with the right outside expertise, and leadership by capable owners. Not only does the Family Office itself need sound governance, but it also needs to integrate well into the total governance system of the entire Family Enterprise.
5. *Inability to adapt to the future generation:* An important responsibility of a Family Office is to help the family preserve family cohesion and maintain momentum across generations. As succession plans are put in place across the family's companies, assets, and activities, the Family Office is often overlooked, yet it needs a succession plan too.

Managing the Family Office's transition to the next generation is vital. It is at a generational crossroads that many Family Offices stumble and do not survive the leap to becoming a multigenerational entity. A generational transition in the Family Office requires fundamental changes in the ways the Family Office engages with family members. Part of a Family Office's success is its ability to adapt to the rising generation, including developing services, communication, and management styles that are a cultural fit for the new generation.

## RECOMMENDATIONS TO STRENGTHEN THE FAMILY OFFICE'S LINK TO THE FAMILY

Based on our experience assisting families with these concerns and threats to Family Office success, we recommend focusing on these key areas:

*The family's mission and vision should drive the work of the Family Office.*

The Family Office deserves to have a mission and vision that pursues the family's multigenerational sustainability and success *as a family*. This higher order mission and vision needs to be articulated by the principals and family, and then adopted by the Family Office team and governance group. Family Offices need to regularly examine their purpose and the strategies that will enable them to achieve the family's goals both now and into the future. This requires regular attention to the path and development of the family and the pacing of its needs.

If your Family Office does not have a mission and vision, or if they need to be revisited, ask yourself these questions to help you develop or improve them:

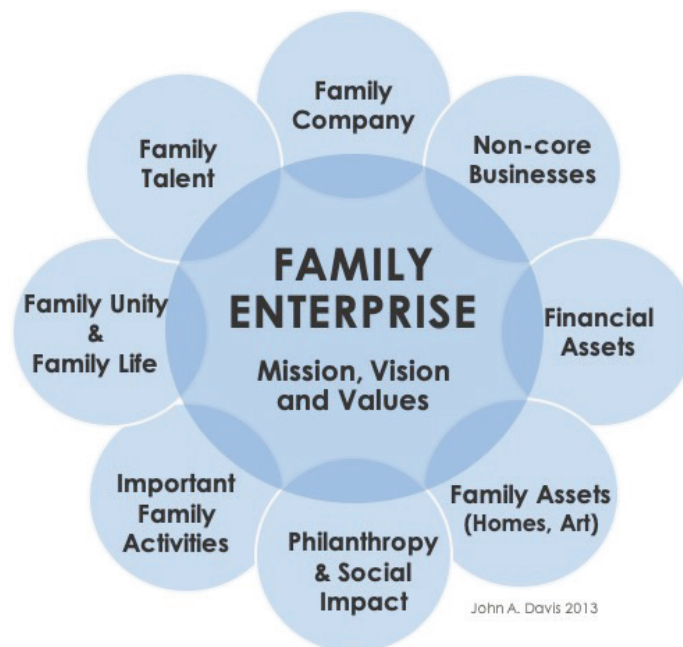
1. Do our Mission and Vision statements give the Family Office purpose and direction? Is it clear to us and our stakeholders what we are building and why we want to build it?
2. What are the family's financial assets and meaningful activities that we want to sustain through the next generation, and are these being supported by the Family Office?
3. In addition to supporting financial objectives, does our Family Office help the family achieve strategic, non-financial goals (e.g. preserving family cohesion, building family talent, and maintaining momentum across generations)?

4. Does our Family Office have an appropriate and well-functioning governance structure to achieve its mission and vision? Does the governance structure integrate well into the total governance system of the entire Family Enterprise?
5. Are all parties clear about the goals and endeavors that the family wants the Family Office to achieve in the next ten years? Do these goals lead to specific, concrete actions?

***Use the Family Enterprise Approach to Architect the Family Office You Need.***

Family Offices that anticipate the family’s trajectory and increasing complexity, by taking a ‘Family Enterprise view,’ stand a better chance of achieving two outcomes: creating value for the family in excess of its cost, and succeeding over generations. Taking the Family Enterprise view means planning for the current and future needs of all of the family’s meaningful activities and financial interests in an integrated manner.

The entirety of a family’s meaningful activities and assets is called the *Family Enterprise*, which includes the core operating businesses, non-core businesses, real estate investments, tangible assets like art collections and family homes, philanthropic activities, governance bodies, and other pursuits that carry the family’s DNA and reputation. A Family Office is well served by mapping the family’s trajectory for each of these activities, and organizing its services, time, management, staffing, and resources to meet the evolving needs of the total Family Enterprise.



With this framework in mind when architecting the Family Office, it is important to first conduct an assessment by identifying key issues, goals, and needs important to family members pertaining to family, enterprise and ownership continuity—whether financial or non-financial in nature. Family members should be given an opportunity to individually voice their key concerns, interests, and needs—both current and anticipated—and their priorities. Also useful before designing the Family Office is to understand the family’s purpose, strengths, aspirations, and needs for their entire Family Enterprise.

Equipped with this information, the Family Office principals can design the right structure and devote an appropriate amount of resources to build a Family Office that is right-sized and outfitted for their specific family, and also one that will grow with the family.

Not only does this process provide the wealth owners with a good amount of useful information about the family’s needs now and in the future, it is also inclusive of the family members and governance groups that the Family Office will serve. No price can be put on the trust that is built when family members feel heard and represented in an organization of which they are a beneficiary.

***Devote an appropriate amount of time and resources to both financial and non-financial goals of the family.***

The Family Office is often the right place to centrally manage and execute important, non-financial activities on behalf of the family and Family Council.

Below are several examples of these non-financial activities:

- Support family governance by executing the activities of the Family Council such as:
  - Organize family gatherings and next generation events that build family unity
  - Organize family projects that strengthen the family’s connection to the business
  - Maintain the Family Protocol
  - Administer the family newsletter, family website, and family surveys
  - Help the Family Council think strategically about how to achieve the family’s mission and goals, and recommend initiatives

- Structure talent development programs for the family such as:
  - Build the family’s soft skills
  - Educate the family about their assets and the role of owners
  - Prepare next generation members to serve on the boards of the family’s operating companies
  - Prepare family members to serve on the Family Council
  - Educate the young children about a healthy wealth identity
- Organize philanthropic activities in the absence of a family philanthropic foundation

Recognize that in most systems, the unity- and talent-building activities, such as those listed above, are the domain of the Family Council. *The Family Council is responsible for strategizing for the family.* The Family Office needs to coordinate closely with the Family Council to clarify each group’s role. We see two typical scenarios:

- i. The Family Council leads the family’s unity-building and talent-building initiatives and asks the Family Office to administer and help execute, or
- ii. The Family Council invites the Family Office to have a hand in recommending the Family Council’s long-term plans for the family, as well as administer and execute them.

In either case, it is important to have continual communication between the two groups to delineate roles and responsibilities and know who makes which decisions.

***A holistic governance structure is necessary in order to have an effective Family Office***

A Family Office tends to oversee a broad range of activities and services. Such complexity necessitates the family to be clear about its direction and goals, and the Family Office to be clear about its responsibilities and authority relative to the successful operations of the entity. A key ingredient to achieving this level of direction and clarity is a well-functioning governance system that guides and stabilizes the Family Office, and builds trust among its stakeholders.

At the start, the governance system may be informally structured, but as the family and the Family Office grow more complex over time, a more formal governance system is needed. Often this comes in the form of an oversight board or council with committees composed of family owners and independent advisors. The principle we embrace is to design a governance system that is right-sized for the Family Office to achieve its strategic goals, and not in excess of what is truly needed.

Consider these elements as you design your Family Office's governance:

1. Be clear about the mission (purpose) and vision of your Family Office. Your governance structure needs to support the Family Office in achieving these.
2. Define the purpose, role, responsibilities, and structure of your Family Office's governance.
3. Develop a Family Office charter that defines its scope with clear responsibilities, authority, and written policies and procedures for making decisions, informing, reporting, and oversight.
4. Establish communication guidelines and create a communication protocol for management, governance, and ownership regarding how various issues should be communicated. Consider ways to open communication channels to keep important stakeholders informed, to gain diversity of thinking, and to ensure different voices are heard.
5. Identify the profile, experience, and qualifications of individuals who will best represent the family and professionally serve the Family Office in governance roles. Determine their roles, how many individuals are needed, what their term limits will be, and how they will be compensated.
6. Integrate the Family Office's governance into the total governance system of the Family Enterprise. Coordinate its activities with the other governance forums in the Family Enterprise, such as the Family Council and Owners Council. Coordination and information-sharing minimizes conflict, provides clarity of duties, allows for allocation of resources, and produces desired results across the Family Enterprise. Frequent and effective dialogue among the forums are critical elements in developing trust and sustainable relationships throughout the Family Enterprise.



It is important to reassess the suitability of the Family Office's governance over time, based on its ability to satisfy the family's shared purpose and vision. This is key to ensuring that the Family Office remains relevant for the next generation. Work closely with the rising generation to adapt the governance model to their cultural style, and to develop Family Office services and activities that serve their needs and strategic goals.

## FINAL THOUGHTS

The needs of a family and the demands placed on a Family Office evolve over time, and the Family Office should evolve with it.

The Family Office must always maintain a strong link to the family by helping it achieve its strategic goals. While wealth management and investment oversight are key offerings, the Family Office must dedicate an appropriate amount of time and resources to the non-financial activities that will help sustain the family itself, alongside its wealth.

There needs to exist a culture that allows a Family Office to remain adaptive and agile, evolving to keep pace with the rising generation's needs and expectations. Without the ability to evolve with the family and maintain a strong link to it, the risk is high of becoming a Family Office for a single generation.

## ABOUT THE AUTHOR

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Marlon Young is an advisor to business families throughout the world on the design and implementation of family enterprise governance, ownership issues, succession planning, and next generation development.

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The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, is a highly specialized, international, advisory firm that assists family enterprises with navigating the new economy, solving sensitive issues, and making the entire family enterprise strong and united over generations. [cfeg.com](http://cfeg.com)