

THE VALUE OF A FAMILY OFFICE:

A DEEP-DIVE INTO THE BENEFITS AND SERVICES A FAMILY OFFICE CAN PROVIDE TO A FAMILY

Marius A. Holzer

Senior Advisor and Associate Partner, Cambridge Family Enterprise Group (CFEG)
Partner, Parkview Group

Courtney Collette

Partner, Cambridge Family Enterprise Group (CFEG)
C.O.O., Cambridge Institute for Family Enterprise (CIFE)

CAMBRIDGE
INSTITUTE FOR FAMILY ENTERPRISE



Wealthy families have a *lot* of complexity to manage. Across their assets, activities, relationships, and many dimensions of their lives, there is a seemingly endless amount to organize, direct, and plan ahead for. This is particularly true of families aiming to build a substantial and vibrant *family enterprise*¹ that they wish to perpetuate for generations.

Fortunately, there is a structure that reduces this complexity, and provides efficiencies across a family's breadth of assets and activities.

¹ A *family enterprise* is the collection of a family's meaningful, jointly-owned assets and activities that help to identify, support, and unite the family. It is more than just the family business. The *family enterprise* includes: economic interests such as the primary family business; other operating businesses or ventures; financial assets, perhaps organized in an investment company or family office; real estate investments; family assets like homes, art, or aircraft; philanthropic, community, and social impact activities; what the family does internally to build a united and contributing family; and other pursuits that carry the family's name, reputation, and DNA.

The *family enterprise* concept was created by Professor John A. Davis to help enterprising families—especially those that seek to build and perpetuate economic value and other types of value for another generation or more—take stock of the totality of their important work and holdings, and consider the synergies between them.

It is beneficial for families to use this lens to view their family's assets and activities as a collection, bound together by the family's common purpose, direction, and values. This helps the family to be clear and united around *what* they own/do, *why* they own/do it, *where* they are taking it, *how* they are building it, and to coordinate strategies, capital, talent, governance, and succession plans across their full range of assets and activities. A family's success is measured by how they own and manage *all* of their assets and activities, not just their family business.

A **family office** is a private office that centrally provides services to a family to help them manage the complexity of their lives—in particular, to grow their financial wealth, support the family’s long-term goals, manage family needs of various kinds, and coordinate across all of their endeavors with a unified strategy.

Family office services are often a combination of investment, legal, tax, concierge, and governance-related activities, as well as others that can be customized to meet the needs of a family. A family office replaces the labyrinth of independent advisors, teams, and processes that wealthy families or individuals construct when they manage their assets and activities themselves. There is no one-size-fits-all; each family office is tailored with the services, team, and scale that the family needs for their stage of evolution.

A family is wise to consider a family office once their holdings become too substantial to manage independently, too complex to oversee or coordinate, or as the family becomes earnest about building a valuable *family enterprise* to perpetuate for generations. A family office is a vehicle that can bring a family higher financial returns, greater efficiency and oversight, better coordination across the family’s initiatives, and centralized support for the family’s multigenerational continuity.

As families or individuals consider whether a dedicated family office is right for them, it is useful to explore the benefits and services of a family office.

BENEFITS OF A FAMILY OFFICE

A family office is a common-sense solution that families themselves invented as a way to delegate their financial, administrative, and future-planning activities to a central, coordinated team that they oversee. Family offices have evolved over time to offer an array of benefits—both financial and non-financial—to support an owning family.

Financial Benefits

(1) *Greater Returns:* Family offices generate higher risk-adjusted returns. This is due to a few reasons:

- Their ability to **allocate capital better**, and in a totally customized way, for a particular family. A family office’s centralized effort helps to optimize the mix of assets, irrespective of where and how the investments are held or managed, without taking additional risk.

- Their better access to institutional-quality investment options. A wider range of options becomes available to families that pool their collective capital together and therefore have higher levels of investable assets, which attracts higher-quality investments.
- Their focused, **careful selection of investments**, unconstrained by specific financial service providers. Family offices are able to focus on selecting the right investments for a family, meaning those with a higher chance of outperforming the markets.
- Their ability to make use of, and **choose investments compatible with a family's core values and competencies** (e.g. their time horizon, sector or regional expertise, networks, or resources). Because the family office knows the family very well, it can invest in holdings that leverage the family's unique strengths and goals.

These reasons can lead to above-market returns without taking additional risk.

(2) *Lower Cost*: Having a family office can be more economical than not having a dedicated organization. This is true as long as the family's assets are sufficient to financially support the operational cost of the office, which often means achieving the right balance between a dedicated internal team and utilizing external advisors/experts. Overall, centralizing the administration and oversight of assets through a family office helps a family avoid duplication of efforts and achieve greater efficiency, since for many activities, adding one more family member only adds marginal cost. Moreover, investing one large pool of assets is more cost-efficient than having multiple smaller accounts, and this increases the ability to negotiate prices.

(3) *Higher Probability of Meeting Financial Goals*: When a family organizes the important elements of their wealth and family enterprise into a structured family office, they are more likely to have the important conversations about their goals, values, time horizons, risk appetite, and overall mission and vision for what they are building together. Identifying these targeted goals and guidelines, and utilizing an investment governance system to oversee performance, enables families to make targeted investment decisions with their important goals in mind. Families are more likely to meet their wealth goals with this type of structure and process. And when change is needed, the family office's governance mechanisms—with their built-in feedback loop, reporting, and investment controlling—allow a family to identify, respond to, and adjust their trajectory quickly.

Collectively, these greater financial benefits have obvious advantages—such as supporting the family’s lifestyle and wealth objectives, the potential for greater philanthropic impact, and covering the operational costs of the office. But beneath the surface, higher financial returns have additional deeper benefits for a multigenerational family—such as more interesting investment opportunities that can open up new horizons for the family, or the ability to weather downturns in today’s turbulent environment, or more capital to meet the expanding needs of a growing, diverse family over generations (e.g. providing liquidity, investing in family unity, or supporting the next generation’s professional development).

In CFEG’s decades-long study of what helps enterprising families remain successful for generations, financial performance is a primary reason that families stay together over the long-term. They pool their capital, work together to achieve common goals (financial and non-financial), grow their wealth, leave their mark on the world, and perpetuate their family enterprise for another generation. The financial performance “use case” for a family office is the most fundamental benefit, and makes all other benefits worthwhile to explore.

Non-Financial Benefits

(4) Efficient Oversight and Time Saved: Families with high-functioning family offices save a great deal of time by delegating the management and execution of activities, and streamlining their oversight of it. With suitable investment governance in place (explained later in this article), oversight and strategic management of a family office is not more involved than overseeing any other operating business. Families can smartly design an efficient oversight structure and process with ample reporting, dashboards, performance metrics, and other processes. This enables family members to gain altitude, assume a strategic oversight role, and free up their time to build value in other ways they choose, according to their “highest and best use.”

(5) Informed Family Members: Families with family offices report that their family members are more informed about the businesses, investments, philanthropy, and other areas of the family enterprise. The family office serves as a hub for information that is summarized and routinely reported to family owners and the broader family. This raises the level of transparency and trust inside a family.

(6) Implementation of the Family's Long-Term Vision: Many families of wealth have a broader mission beyond growing their financial assets. They may also want to build strong businesses with great cultures, or do good, or leave their unique mark on the world. Family offices can provide support for the family's long-term vision and broader needs—generally in the areas of unity-building, talent-building, and social impact. For example, a family office can organize family retreats that build unity or family projects that foster teamwork and collaboration. They can execute the family council's talent agenda to help the family remain adaptive and ready for the turbulent future ahead. Family offices can help tactically implement investments and projects related to social impact and philanthropy. Impact investing (investments that yield social and/or environmental benefits on top of financial returns) is a fast-growing field and is a direct result of families translating their values and mission into their investment activities. There is also increasing appetite for sustainable investments, considering the lens of environment, society, and governance (ESG) standards, which offer more opportunity for mission-driven investing that the family office can execute.

(7) Support of Generational Transitions: Families that aspire to perpetuate their family enterprise for generations need support in planning and executing the multiple dimensions of generational continuity. A family office can manage certain aspects of succession preparation to maintain steady progress on these important, but often non-urgent, projects. For example, the family office can organize next generation development plans to ensure family members are ready to step into management, board, and ownership roles of strategic importance to the family.

(8) Career Opportunities: Career opportunities within the family business may not be available, or be the right fit, for every family member who wants to work for the family. The family office and its investment activities provide an additional organization with which family members can engage and add value. Some family members will enjoy the work of investments, private equity, real estate development, impact investing, or other activities of the family office. Serving in active board roles in one or several portfolio companies that the family owns is another way family members can engage and directly improve investment outcomes. Furthermore, a family office can act as “Family Bank,” financing or seeding entrepreneurial activities of family members.

(9) *Privacy and Relationship Continuity*: An ever-changing financial services landscape poses a challenge for families that work with several different providers. Every change, from a new account manager to a merger of businesses, is disruptive and increases the circle of “family insiders” who know private information about the family. Retaining sensitive information within a family office, and select sharing on a need-to-know-basis, protects the family from threats ranging from extortion to fraud. A prerequisite for increased peace of mind, however, is the introduction of (cyber-) security policies, proper oversight, clear roles and responsibilities, as well as succession planning for critical internal and external roles.

SERVICES OFFERED BY FAMILY OFFICES

While every family builds a private family office that best complements their specific enterprising activities, needs, and aspirations, they often incorporate the following main functions.

Strategic Management of Total Wealth

Families have tendencies to think of their financial wealth in discrete buckets. They dedicate focus and resources to operating businesses, separate from liquid investment portfolios, separate from lifestyle assets, separate from philanthropy, and so on. This disjointed perspective ignores the interdependence between various assets, and quells the vital coordination across them (e.g. the coordination of strategies, capital, talent, governance, and succession planning).

Rarely does a family step back and consider their *Total Wealth* perspective, which is our primary lens when advising a family at CFEG. Consider that a business creates free cash flow and dividends in good times, and requires more liquidity and capital in challenging times. A family, on the other hand, grows perpetually, and with that, so does its consumption—whether for lifestyle, or to engage in new opportunities, or to make investments for value creation. Integrating all assets and liabilities into their planning enables families to forecast, monitor, and manage the trajectory of all of their wealth (their “Wealth Path”), with the objective of growing wealth faster than the family, inflation, taxes, and investment costs consume it, especially over generations.

Investment Management

Centralized and professional management of a family’s assets, in a risk-controlled framework, become critical as the family strives for value creation and wealth regeneration. There are a number of ways a family office provides investment management, such as:

- An institutional-quality **investment process** that includes customized portfolio design and asset allocation, risk management, asset manager selection tailored to specific asset classes, consolidated performance reporting, and investment control/oversight. A family office engages in deep, ongoing conversations with each family member to tailor and deliver this to multiple cohorts in the family: individuals, nuclear families, branches, and for the family collectively.
- An Investment Committee is an essential **investment governance** forum for the family. It enables the family to step fully into their role as strategic owners and remain in the driver's seat, without taking on the operator role of daily management. Formalizing the owner's role is critical for families in today's turbulent environment, which demands active, engaged owners to gain altitude and be at the table, steering and adapting their portfolios; this role cannot be delegated to non-family. The investment committee meets regularly and is composed of family representatives as well as non-family advisors. The investment staff of the family office organizes and prepares for the meetings, providing summary reports, investment analysis and recommendations, oversees the implementation of investment decisions, and conveys summary information to the family owners.

Legal & Tax Services

Over generations, families grow in size, diversity, geographic reach, and in other ways. As a family naturally grows and evolves, so does the complexity of their needs for proper legal and tax planning. Consider, for example, family members choosing to reside and purchase assets in multiple jurisdictions, or young family members preparing to marry and needing pre-nuptial agreements, or the inheritance plans required in the event of a sudden loss of a key owner or CEO of the family business. In addition to these types of life events, the multigenerational time horizon of some investments necessitates liquidity planning, tax planning, due diligence, and tax-aware transaction structures, particularly for investments in less liquid private markets.

Families need to plan ahead for these types of life events and investment horizons, and have the right wealth structures, estate and inheritance plans, tax plans, insurance strategies, and legal protections in place. Having the legal and tax expertise inside the family office, that understands the critical internal context of the family, permits the family to have in place the right structures to manage their wealth and reduce the risks that life events and certain investments can bring.

Support for Family Governance, Talent Development, and Philanthropy

Enterprising families that aspire to endure for generations know that they must invest in activities that strengthen the family. Once a family council has developed a family strategy, they lean on the family office to execute important initiatives such as history-honoring activities, unity- and team-building projects, collective philanthropic giving, social impact and community-building activities, and developing family talent that is prepared to capably step into roles as owners, board members, wealth creators, entrepreneurs, family council leaders, or philanthropists. Often these family-strengthening activities originate with the family council, and are centrally managed and executed by the family office on behalf of the family and family council.

Lifestyle & Administrative Services

This umbrella function includes concierge services to the family such as travel arrangements, managing personnel (household staff, drivers, pilots), and coordinating the use of private residences and other lifestyle assets such as a private aircraft. It can also include management of art collections and other collectibles. This function often also involves personal budgeting and accounting, tracking personal bank accounts and credit cards, and following the growing number of legal entities that need to be administrated and accounted for.

Corporate Office

This back-office function ensures that the family remains in control. Think of it as a mix of “Corporate Secretary” and “Investor Relations.” It provides family members with necessary information, educates family members, and orchestrates the various governance bodies.

Another vital function is managing relationships with service providers. Overseeing contractual agreements enables tight cost management, and active relationship management with providers ensures seamless integration of services.

Lastly, increased interconnectivity requires securing and monitoring the use of communication devices. This includes managing access to information on a need-to-know-basis and storing and transmitting data using state-of-the-art encryption standards.

WHERE TO BEGIN

Creating and managing a family office may seem a daunting task. After all, it is another organization that needs staffing and oversight. Compared with the status quo—which

is often the delegation of wealth management to various banks and asset managers combined with a lack of attention to other important family matters—a family office is considered an additional layer of complexity and cost. Given the various financial and non-financial benefits cited above, however, with increasing wealth and complexity, not having a family office is often more costly than having one in the medium- to long-term.

A family doesn't need to build its own wealth management firm or provide all of the services described in this article at the onset. It can begin small with services that meet the greatest need and have the greatest positive impact, financial and non-financial, and then build over time according to the family's priorities and evolution.

Consider non-traditional organizational models, which are increasingly trending. A traditional office with physical infrastructure may not be necessary, particularly as work environments shift to become remote or partially remote. One option is a **hybrid family office** (also referred to as virtual family office), which builds on a single family office platform and heavily relies on outsourcing. Thanks to technological innovation (mainly cloud computing), the hybrid model enables families to create efficient systems, where external partners complement and effectively extend internal core functions.

The best place to start when considering a family office is to articulate the family office's goals and vision—whether that is value creation, or achieving long-term strategic objectives for the family, or other combinations. Consider what the family actually needs—right now and over the next 5–10 years. Avoid making these directional decisions in isolation among only one or two people; instead, use this as an opportunity to have family-wide conversations about the family's future.

Born from this understanding of the family office's goals and vision, identify the unique services to offer, the team to hire, the operating budget needed, and the governance required.

This article is part of a series on family offices. In subsequent articles, we describe pivotal aspects of family office design, setup, and performance.

If you are considering creating a family office, and would benefit from a thinking partner to co-create the right family office for you, please be in touch with us. We assist families with identifying and analyzing their family office options, designing an organization that is right-sized, and benchmarking family offices to generate the value they should.

ABOUT THE AUTHORS



MARIUS A. HOLZER

Senior Advisor and Associate Partner, Cambridge Family Enterprise Group;
Partner, Parkview Group

A multi-faceted career of nearly 30 years in the wealth management industry provided Marius with a wealth of cross-functional experiences and professional knowledge. Since 2011 he dedicated his exclusive focus on providing families and their family offices with support and control they need to manage their wealth and achieve their objectives. Marius is a trained economist and certified expert in information technology with an MBA from INSEAD. He is both, a CFA and CAIA charter holder and earned a certificate in Advanced Risk and Investment Management at Yale School of Management/EDHEC.



COURTNEY COLLETTE

Partner and Senior Advisor, Cambridge Advisors to Family Enterprise
COO, Cambridge Institute for Family Enterprise

Courtney Collette is Chief Operating Officer of the Cambridge Institute for Family Enterprise, a research and education institute devoted to multigenerational family enterprises. Since 2011, she has led its education programming, conferences, research studies, and publications. As head of education programming, Ms. Collette designs curricula for seminars, workshops, and online courses for family enterprise audiences worldwide including bespoke private programs for individual families and organizations. She has authored several publications pertaining to the success of family enterprises, including articles, Harvard case studies, and the book, *Next Generation Success*, a 10-year study of next generation talent development in global family enterprises. Ms. Collette spent a decade as a trusted advisor to business families on the issues of governance, family relationships, succession, and next generation readiness.

ABOUT CAMBRIDGE INSTITUTE FOR FAMILY ENTERPRISE

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.

The copyright on this article is held by Cambridge Family Enterprise Group®. All rights reserved. Articles may be available for reprint with approval. For permission to duplicate, distribute, or copy, in whole or in part, contact inquiries@cambridge-institute.org.