Family Business

5 Best Practices for Your Family Office

By Beth Braverman

Like all families and businesses, every family office is different

As the size of your family – and its net worth – grow over time, managing your family's wealth can become increasingly complex. That's particularly true for families that own a family business and have multiple generations with competing financial priorities.

"Sometimes a family has a liquidity event, even if they still have an operating company, and suddenly they have a lot of liquid wealth for the first time, and they realize the power of investing together rather than taking all of that money and going their separate ways," says Greg Greenleaf, a principal consultant with the Family Business Consulting Group.

For a growing number of families, the way to achieve this goal is by setting up a family office, which can handle day-to-day decisions about the family's investments in addition to tasks like bill payment, property management, staff recruitment, and estate and tax planning.

A **2021 Citibank report** found that there are 12,000-15,000 family offices across the world. However, a family office can take many forms, and—like all families and businesses—every family office is different.

"There's a lot of complexity involved with setting up a family office, and if you don't do things right, the family office can end up being more divisive than connecting for the family," says Jennifer Pendergast, a professor of family enterprise and executive director of the John L. Ward Center for Family Enterprise at Northwestern University's Kellogg School of Management.

There are some overarching best practices that families can follow to make sure that a family office meets their specific needs.

1. Determine whether you need a single-family office—and if you're comfortable with the cost.

Having a true single-family office can be incredibly expensive; the cost can easily exceed $1 million a year. For that reason, advisers say, it may make sense only for those families with at least $100 million in investible assets.

"There's a tendency to want to set up the family office as efficiently as possible," Pendergast says. "But it's going to cost money, and you have to be willing to commit to paying what it takes to get good people who can do what you want to do with the office."

For many families, a better option might be to join a multi-family office, in which a third party provides family office services to multiple families. Because of economies of scale, the cost to each family is lower.

"The multi-family office tends to be able to attract, retain and potentially compensate more attractively in our space," says Kirby Rosplock, the founder and chief executive of Tamarind Partners, a consultant to wealth families. "But instead of having one client, there might be 20 or 50 families."

One benefit of going the multi-family office route for some families is access to a network of other families who may be facing similar issues and challenges.

2. Set intentions upfront.

For some families this involves the creation of a mission statement, while for others it's a more informal practice. In either case, you'll want to determine the tasks on which you want the family office to focus. Some family offices only manage the family's money, while others have more broader mandates, including property management or meeting and retreat planning.

"Once you have multiple homes to deal with, you need someone to oversee managing the insurance, paying the property taxes and basic household administration," says Kathryn George, a partner at Brown Brothers Harriman with oversight of its Private Banking unit's Multi-Family Office and Center for Family Business. "When you get into the next generation and there are a lot of people and family units involved, it can really help to have a centralized family office to manage that pain point."

In addition to managing the family financial and real estate portfolio, many family offices also focus on estate and trust management. Once families reach the second or third generations, they typically have multiple trusts and may be considering philanthropic vehicles.

Family offices can also handle the management of "toys" like boats and planes, a task that may be more important than many families realize, Greenleaf says.

"If organized well, the boats and the houses can be the glue that helps keep the family together," Greenleaf says. "When families get to the sibling or the cousin stage, if there is no entity with a higher purpose, the family members can drift apart. The real wealth is the family bonding that happens across generations and the shared stories and celebrations of the family's success."

While the initial intentions of the family office may change over time, determining what you want the family office to do will help you set it up properly.

3. Run it like a business.

If you determine that a single-family office is the best route for your family, keep in mind that setting it up is essentially like building a new startup. A family office is a legal entity that needs a board of directors and a good governance structure.

"People sometimes don't realize that a family office is another operating business, where the business just happens to be investing or providing tax and estate planning," says Jennifer Pendergast, a professor of family enterprise and executive director of the John L. Ward Center for Family Enterprise at Northwestern University's Kellogg School of Management. "In some ways a family office is more complex than a family business."

You'll need to determine the right structure, hire the best team and have a clear vision for how the family office will achieve and measure success.

"You want a clear understanding of who it's for, who it serves, who owns it, who pays for it and how it's going to be utilized," Rosplock says. "If it's viewed as a cost center by the family, it can be more difficult to justify, versus if it is viewed as a profit center allowing the business to do more, build more and grow."

4. Prioritize governance.

Just as governance is important for your family business, it's also critical to the success of your family office. Having clear policies around reporting structures can minimize conflict or confusion later.

A well-run family office will have very clear roles and responsibilities, as well as a succession plan for key executives, which the broader family knows and understands, George says.
One of the most important decisions that family will need to make is who will lead the family office. About half (50.7%) of family offices in the United States had non-family CEOs in 2020, according to the **Agerus Group Global Family Office Compensation Benchmarking Report**.

"In an entrepreneurial environment, that unicorn family office head is able to to help get things started," Rosplock says. "They're a generalist that can manage a lot of different components, and right now everyone is searching for these unicorns — and they're really hard to find, as the number of new offices is making competition intense."

David Fisher, executive managing director at Cresset Capital, says family offices run by family members tend to differ in character from those run by non-family executives.

"Those decisions have different implications as to how things evolve and develop in terms of the professionalism and accountability of the family office," he adds. "That's a critical decision that any family needs to wrestle with."

In either case, many families also put an an outside advisory board in place to serve as a sounding board to hold the leader of the family office accountable.

"That can be a very powerful tool and resource to help facilitate communication," Fisher says.

5. Focus on the next generation.

The goal of many family offices is to ensure that the family's wealth remains intact through multiple future generations. With that in mind, you'll want to think about the best ways to introduce younger generations to the family's wealth and the responsibilities that come with it.

When you get to the second or third generation of the family business, one of the really important aspects of the family office is the shareholder dynamics, since not all of the family members work in the family business, although they may be owners, George says.

A family office can help each generation understand their connection to the business and their rights as shareholders, a task that becomes more critical as the number of shareholders grows from one generation to the next.

"If you're going to have multiple generations served by the office, make sure you're having a dialogue across those generations about what those needs are," Pendergast says.

Family offices that serve multiple generations must prioritize communication with those generations, Fisher says, in order to make sure everyone feels involved and understands how and why decisions are being made.

"No matter who much you think you've communicated something, for some it's never enough or it's not easily understood," Fisher says. "We all learn and hear and process information differently, and it can be an exhaustive process. But to be effective, a leader must be able to understand how to best communicate with the people they're serving."

Beth Braverman is an award-winning freelance writer and frequent contributor to Family Business magazine.

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