

## The Second Family Business: The Family Office

The Family Business Consulting Group, Inc.

After a successful family business has amassed sufficient wealth, the family enters a new, more unfamiliar stage in which, independent of the business, the family has to decide how to preserve its wealth, maintain its influence in society, continue to benefit its family members, and nurture a cohesive family identity. This phase may be launched by selling the family's primary business asset, or it can occur more gradually as investments outside the business become larger than the business itself. Without a clear plan for wealth and family legacy preservation, the family faces a gradual dispersal and dissipation of its assets and an erosion of family cohesiveness, influence, and identity. One solution is to set up a family office.

A 1996 study by the consulting firm Graystone Partners estimated that there were well over 5,000 family offices operating in the United States—a number that has surely increased since then. The family offices in the Graystone study ranged from first to sixth generation, and controlled assets ranging from \$100 million to several billion dollars. It should be noted that other surveys have found family offices with much lower asset values. While those kinds of assets conjure images of grand office suites in which legal, financial, and accounting professionals go about managing the massive wealth of a high-profile family, family offices are actually the exception. A family office can be

as simple as one family member and a bookkeeper managing family financial and legal matters from the bookkeeper's home.

In the past, family offices were started only when a business was sold, but today many are started while the business remains operating in the family's hands. More families have begun to anticipate well in advance how to make their wealth and legacy last for future generations, whose only experience with the family business will be limited to old newspaper clippings, financial reports, anecdotes, and photographs.

The services provided by a family office usually include:

- Estate planning advice, assisting in such matters as wills, trusts, and gifting
- Investment selection, administration, reporting, and accounting
- Wealth transfer assistance and implementation
- Tax planning, compliance assistance and coordination, and tax return preparation
- Education—teaching younger generations, who might otherwise have learned from the family business, about working with legal and financial matters and advisors

- Coordination of philanthropy
- Providing personal services for individual family members, such as accounting, bill paying, insurance, travel booking, assisting in large purchases like automobiles or property, and paying domestic employees (often called concierge services)
- Keeping the family cohesive as it grows in numbers and geographic diversity

To operate successfully, a family office requires some of the same fundamentals as a family business: good communication, a clearly defined organizational structure, budgeting, and a mission statement. In addition, it requires strategic planning concerning which services it will provide and who will provide them. In many cases, a large proportion of the work overseen by the family office is accomplished through contractors or consultants.

The first step to opening a family office is to convene a family meeting to address the following strategic questions:

- What family values do you want to see preserved?
- How will the mission of the family office be defined??
- What scope of services will be provided to family members?
- What are the assets that the family wants to enhance or preserve?
- Which family members are interested in serving in a leadership role?
- How will the governance be organized—how will the office be owned, organized, managed, and overseen?
- How will key functions be accomplished (in-house employees or outside advisors)?
- How will the family office services be paid for?

The mission statement of the Hirsch family of Canada provides a clear example of the mission and values of their family office:

*Our family mission is to protect and enhance the family wealth, to assist in the pursuit of leadership in philanthropic endeavors, to secure a sound future for ourselves and for future generations, and to ensure that the future generation understands the responsibility of their inheritance and how they can benefit from it.*

One of the most important strengths of a family office may also become a serious potential weakness. As the Graystone study says, many family offices can end up overprotecting and coddling the family. With the family business no longer employing and educating new generations about sound business practices and responsibilities, new family members may come to see the family office as a well from which they can heedlessly draw and as a resource to be taken for granted, while learning nothing about the world of investment and responsibility.

Writing in the *Family Business Advisor*, Ross Nager describes the potential for coddling and spoiling: “The family office becomes the easy place for a family member to turn if some need arises. Need a new house? Call the family office and have them arrange financing and deal with that messy paperwork. Need a will? Let the family office interact with the family lawyer to handle that complicated stuff. Need to fire the maid? The family office can handle that distasteful task. Don’t want to plan your own budget or try to understand investment principles? Give ‘em a call.”

Three ways to avoid this problem are education, cost awareness, and fees. Unless someone is willing to provide unlimited resources to the office, there must be some awareness of the effects of service requests, and there should also be some accountability for those requests. When family members who have never had experience with the family business request a particular service, it can be considered as both a request for the service and as an educational opportunity. Instead of an accountant, for example, merely arranging for a real estate transaction, he may explain step-by-step what he is doing and walk the family member through the entire process.

Family members should also be apprised of what a particular service will cost the office, so that they can



make connections between their needs and the very real cost not just to the family but to future generations. Some family offices have even begun charging their family members fees for certain services.

All these decisions should be made before setting up the office, and reassessed periodically. This ongoing process helps avoid misunderstandings, builds family cohesiveness, and helps ensure the longevity of the family office and the family wealth. One of the most important

functions of any family office, large or small, is to serve as a forum for open and candid family communication. History is rife with stories of powerful and wealthy families destroyed by intrafamily fighting and poor communication, losing their fortune and dignity amid public spectacle. A well-thought-out family office can help keep the family connected, communicating, and cohering around a central organization and a common goal for generations.

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To learn more about The Family Business Consulting Group and how we serve families like yours, call us at (773) 604-5005 or email us at [info@thefbcg.com](mailto:info@thefbcg.com). There is absolutely no obligation.

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