PKF O'CONNOR DAVIES FAMILY OFFICE

Setting Up a Family Office

6 Steps to a Sustainable Solution

By Gemma Leddy, CPA

Establishing a family office is a logical next step for many individuals and families who have accumulated significant assets. When implemented effectively, family offices can provide much-needed stability and peace of mind for families whose wealth management efforts have become convoluted or unwieldy.

A family office should be a proactive step for families who recognize a growing need for better oversight and protection of their wealth. Common tipping points that indicate a family office may be the right next step include:

- Excessive complications during tax preparation
- Redundant or disparate input from experts and advisors
- Lack of relevant and reliable information needed to make informed decisions
- Failing checks and balances
- Privacy issues between business and personal affairs
- Ineffective management of records
- Issues with meeting the needs of younger generations

A family office is especially beneficial because it addresses many financial concerns, including investment management, wealth and philanthropic planning, tax planning and compliance, accounting and financial reporting and management of records while also aiding in more personal family issues, including lifestyle support, family governance, and next generation mentoring and communication.

Family offices achieve optimal success when they're established with the necessary amount of planning, foresight and due diligence. Otherwise, they stand to create more bureaucracy and confusion over a family's wealth management goals. Advisors should encourage families to take these six considerations into account as they work to structure a family office that meets the family's specific needs with minimal headaches and confusion.

1. Identify Priorities as a Family

Start by considering what prompted the creation of a family office – look back at which tipping points had the biggest impact.

For many families, the top priority is getting their "financial house" in order. Focus on oversight and systems – a better way to monitor, control and streamline family wealth including oversight of assets and investments.

It's essential to look at the kind of assets and investments the family office will manage. Each family has unique investing needs, and it's important to establish expectations and a framework as you begin prioritizing elements of your family office. Families with a significant wealth invested in real estate, for example, will require special expertise and oversight. Families whose wealth is centered around a family business may face other challenges in balancing the family affairs with the needs of the business.

Another common reason individuals establish family offices is to get more involved in philanthropy. As wealthy individuals get older, they may shift their focus from their primary business to philanthropic efforts, as we've seen with high profile wealthy individuals like Bill Gates and Warren Buffet. In these situations, many decide to establish a foundation, which requires the proper expertise and oversight to maintain compliance with strict and ever-changing regulations. In this situation, care should be taken to structure the family office to institute the necessary controls and separation of personal, business and foundation activities.

2. Identify a Structure

Once a family has established the primary goals of the family office, the focus can shift to selecting a structure that best fulfills those requirements. A significant decision for families at this stage in the process is deciding if a single-family office, a multi-family office or a hybrid structure is most prudent.

Single-family offices offer control and privacy, while multi-family offices allow members to pool their resources and buying power, creating cost savings and access to more extensive sources of expertise, which can be especially beneficial. There are other options that combine elements of single- and multi-family offices. These hybrid solutions may combine both "in-house" and "outsourced" talent in investment management, property management, legal, accounting, reporting and tax expertise, wealth planning and administrative and lifestyle support.

Ultimately, deciding on a single-family, multi-family or hybrid family office should be based on the family's specific needs applying a cost-benefit approach – weighing the benefits of a private, family controlled single-family office with the resources and expertise that often accompany a multi-family or hybrid structure.

3. Identify a Leader

Family offices operate most effectively when there is a responsible person at the top of the organizational structure who can act as leader, arbiter and administrator – effectively, a CEO. It can be a dedicated family member with the necessary knowledge – and time – to oversee the operations, a multi-family office representative or a single-family office manager hired specifically for the task.

Whoever the family chooses, the leader needs to have a diverse set of business and management skills with sufficient knowledge in a wide range of disciplines, from investments and wealth management, to business strategy, law, accounting and taxes. This technical expertise is only half the battle. Family office leaders need to have excellent interpersonal and communication skills to effectively balance the varying demands and temperaments of family members, interact with outside advisors, manage employees and relate to multiple generations within the family.

Even with these varied requirements, there may be several qualified family members and outside individuals. However, the importance of having time to devote to the oversight of a family office cannot be overstated. Family members need to conduct a realistic appraisal of their schedules and how much time they can actually devote to managing a family office.

4. Establish a Secure Platform

In family offices, and most financial services, trends in reporting and accessing financial information include moving data to the cloud, remote access, shared information and collaborative documents. When implemented correctly, these advances provide significant convenience, oversight and peace of mind.

But as is the case with any technology, there are potential pitfalls. Systems designed to increase access and collaboration can become unwieldy, and expenses can escalate quickly. The need for privacy and security is paramount. Again, a comprehensive cost-benefit analysis is the best way for a family to establish priorities. Make sure the analysis covers your need – and budget – for these system features:

- **Security**
- **Accessibility**
- **Reliability**
- **Timeliness**
- **Relevance**

5. Select Expert Advisors

Building a team of expert advisors can be one of the most significant factors in determining the success of a family office. First and foremost, advisors need to understand the family's unique structure, level of wealth and established priorities. Families should also consider three other criteria:

- **Longevity –** Advisors should be in a position to commit
  to working with the family for many years and ideally across multiple generations.
- **Expertise –** Advisors should have the expertise and experience to effectively serve the family office.
- **Personality –** Advisors should have the soft skills to manage different personalities of family members, employees and advisors.

The most desirable advisors provide a specific service for the family, but also connect the family office to a community of qualified advisors in other disciplines who will work well together as a team. As you establish relationships with advisors, make sure to establish a clear hierarchy of responsibility for each advisor, including setting guidelines for decision-making, communication and control.

6. Educate Future Generations

The duties that come with effectively running a family office often expand as future generations assume more responsibility and oversight. Families should make sure to communicate priorities with future generations and be open to input from these younger stakeholders when decisions about structure, leadership, and communication and advisor selection are being made.

As trends and technologies shift, younger generations should be increasingly involved in guiding the direction of the family office and collaborating with current family leaders to determine the best courses of action. Regardless of the individual decisions a family makes while establishing a structure to oversee its financial wellbeing, planning for long-term stability and growth should be a top priority.

Conclusion

Establishing an effective and sustainable family office takes significant commitment, planning and resources. There are a myriad of decisions to be explored and considered from selecting the overall family office structure and the selection of key advisors to deciding which family members will lead the family office and how control will be transitioned to future generations. Consideration of the tipping points that originally prompted the need for a family office is especially important. Working with an experienced family office advisor and learning from other families about their experiences can set the stage for a much better outcome.

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