Family matters: The family-focused family office

A holistic model for supporting families across generations

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Tanteu. Onkel
Auto, Juli 1950
Woodside im
in Garten von
Bekannten.
4. Mai 1929
am Tag
der
Hochzeit
in
San Francisco

Introduction

Families with significant wealth have unique and complex needs that continually evolve.

The overarching premise of a family office is to provide a structure for overseeing and growing assets, while also providing for effective stewardship and planning for the successful wealth transition to future generations. Yet as families become more complex, we believe there's a need for a new model: the "family-focused family office" (FFFO) that takes a more holistic approach in supporting families, helping them to flourish across generations.

Today's "family offices" are far from uniform. They vary in size and scope, with differing functions and responsibilities depending on their sophistication and complexity within the family organization. From sourcing a part-time bookkeeper to managing 200+ full-time employees, and anything in between, family offices range from including all needed functions in-house to outsourcing some or most functions as deemed necessary.

The modern concept and understanding of family offices was developed in the 19th century.[1] Early family offices were established by business-owning families to centralize management of their wealth and philanthropy.[2] Wealthy families would bring in a trusted advisor—often the family lawyer or accountant, or perhaps a banker or financial advisor—to help coordinate and manage the various components of their familial and financial lives. These included investments, trusts, tax planning, family financial and business education, wealth transition and financial administration. As the workload grew, this person would bring on other staff. Thus, the family office was formed.[3]

Most family offices are relatively small, having 10 or fewer staff members despite the exponential growth of family offices in recent decades. They primarily serve the wealth-creating generation and the first and/or second generations thereafter.[4]

Much has been studied and written about the function of a family office, acknowledging that every family and every family office will look and behave differently based on multiple factors. Much of the research emphasizes the myriad challenges faced by family offices that prevent them from functioning optimally. The purpose of this paper is to highlight the concept of the FFFO, a more comprehensive and inclusive approach to the family office role and function. We hope that this approach will help families avoid or mitigate some of the family office challenges that can arise.

[1] *What is the history of Family Offices?* Wigmore Association, 2020.
[2] *Family office to steward family wealth*, UBS 2022.
[3] *What is the history of Family Offices?* Wigmore Association, 2020.
[4] UBS *Global Family Office Report*, 2022.

The traditional family office

Families create family offices to manage their wealth while nurturing their identity and values. They look after a range of areas from wealth management to wealth transfer, philanthropy and family governance.[5]

Most family offices evolve from a family business or are founded following the sale of a family business. Understanding how they evolve helps put the spectrum of family offices in context. Most family businesses, irrespective of asset size, provide some degree of family office-type services to owners and their family members. For example, the CFO or a similar in-house financial professional of the family business may handle some investment management duties and facilitate banking relationships, while other business employees may tackle administrative tasks for the family, including paying bills and booking travel arrangements, to name a few.

Typically, family offices focus on where they can add most value—strategic asset allocation and risk management—as well as the key control function of financial accounting and reporting.[6] Given the range of what a family office can deliver, a conventional office administers and coordinates the investment management, tax preparation and planning, financial accounting and reporting, estate planning, insurance and risk advisory needs of its principal family. The family office also retains external professionals, including family attorneys, accountants, investment managers and insurance brokers. In short, the typical family office focuses on holistically managing and administering the family's financial life.

The two most common types of family offices are single family offices (SFO) and multi-family offices (MFO). SFOs, as the name implies, are service firms built exclusively to serve a single family. Some are offshoots of the family's private operating company administrative services, while others are created by the hiring of one or more professionals. In contrast, MFOs are formed either from an existing SFO or from a commercial service firm. They aim to generate profit through commoditization and economies of scale related to proprietary services or investment products. MFOs serve families who are unwilling, or unable, to form their own SFOs but need similar services and products.

With the continuous evolution of technology and security, and a wide array of professional service firms becoming adept at serving a more demanding clientele, a third type of family office has emerged—the outsourced family office (OFO). Typically, this has a lean staff, and tends to utilize a virtual structure to integrate expert professionals for specific projects or processes as the need arises, with a high degree of bespoke customization. The OFO also accesses financial, banking, insurance, accounting, legal and other routine and back-office services when it does not require customized solutions (e.g., tax preparations and investment reports, since they are repeated annually or more frequently).[7]

The purpose of a family office

- Preserve and/or grow the family's wealth through a consolidated organization;
- Further professionalize and maximize a family's investment function;
- Prepare the forthcoming generation to become good stewards of wealth;
- Successfully transfer wealth between generations;
- Serve as a philanthropic arm for the family;
- Support the family's entrepreneurial endeavors;
- Create and manage co-investing opportunities;
- Coordinate family governance structures, family activity planning and communication vehicles;
- Manage any liabilities at a parent/family level; and
- Manage the group holding companies.[8]

[5] *Building a family office to steward family wealth and values*, UBS 2022.
[6] UBS *Global Family Office Report*, 2022.
[7] *Do you need an SFO, MFO or VRO?*, Matthew Eskine, *Forbes*, 2022.
[8] *Chinese Family Office and Wealth Management Report 2021*, Campden Wealth Limited, Family Office Think Tank, UBS, AVIC Trust Co., Ltd. 2021.

The family-focused family office (FFFO)

While the natural tendency is for a family's wealth to be measured quantitatively as financial capital, every family wealth preservation plan begins with an acknowledgement that the most important assets are the family members. Families who understand this concept spend most of their time growing all of their assets—especially their qualitative assets. These qualitative assets include the family's human, intellectual, social and spiritual capitals. These four capitals stand in addition to the family's quantitative asset, financial capital.

Together, these five forms of capital comprise a family's true wealth.[9]

The five capitals

Human
The human capital of a family consists of the individuals who make up the family. Their human capital includes their physical and emotional well-being as well as each individual family member's ability to find meaningful work and to establish a positive sense of personal identity.

Intellectual
Intellectual capital of a family is comprised of the knowledge gained through the life experiences of each family member. Signs of intellectual capital include: academic, career and artistic successes, as well as family members' understanding of their individual and family finances.

[9] *The Family Balance Sheet, UBS 2021.* Adapted from *Complete Family Wealth,* Hughes, Whitaker and Massenzio © 2017, with permission.

Social
Social capital refers to family members' relationships with each other and their communities. No family exists without some social capital. Key indicators of social capital include: the family's ability to make thoughtful, shared decisions together; to welcome new members; and to give its time, talent and treasure to the wider society of which it is a part. For many families, this includes philanthropy, charitable endeavors and civic contributions to the community.

Spiritual
Spiritual capital comprises the family's ability to share and sustain an intention that transcends each member's individual interest. Sometimes this is described as a shared dream. Spiritual capital is not necessarily equivalent to a family's spiritual beliefs or traditions. Indeed, it might take the form of humility—the recognition that this journey is fraught with challenges and exceeds the strength of any one of us alone—and gratitude—toward those with whom we share the journey, those who came before and those who will come after us.

Financial
Financial capital greatly contributes to a family's ability to cultivate the other forms of capital. It facilitates quality health care, education, philanthropy, as well as providing the time and opportunity to come together and talk about building and sustaining a shared dream. The opportunity to cultivate these qualitative assets—and not spend precious days laboring solely to make ends meet—is a great gift, which financial capital makes possible.[10]

[10] Adapted from James Hughes, Keith Whitaker and Susan Massenzio, *Complete Family Wealth, Second Edition*, John Wiley & Sons, 2017.

A family-focused family office is a holistic model that focuses on not only preserving financial wealth but also growing and nurturing all of the qualitative capitals. How is this achieved? The family office not only carries out the administrative financial functions, but it also strategically engages the family and places them at the center of the service delivery model. This model of engagement is intentional and aspires to promote family cohesion, enhance family trust and build resilience and alignment across the family enterprise.

What is the family enterprise?

The family enterprise is defined as the collection of family businesses, philanthropic entities, investment portfolios and the family office, and further encompasses the governing bodies of each, such as the family business board, investment committee and philanthropic boards and committees. The family enterprise also includes family wealth structures such as trusts and partnerships—not to mention the family members themselves.

The goals of a family-focused family office

The FFFO can achieve its goals by establishing a framework that fosters initiatives to enhance family communication, strengthen bonds, forge connections, and provide financial education, as well as supporting and developing family members. What's more, it may deliver family governance support, facilitate family philanthropy, and articulate the family's mission and values. Finally, the FFFO may help to clarify the family's purpose and vision for the future.

These goals and objectives, along with the FFFO's enhanced service delivery model, are inter-related and interdependent. The practice of clarifying shared values and enhancing family communication allows families to flourish.

Indeed, without a communication framework, it would be difficult to forge connections among the broader family, implement financial education and incorporate effective governance. Without effective governance, it would be challenging to align the family enterprise.

Thus, the service delivery model is an integrated set of activities designed to work in unison. While these initiatives exist in many family offices to some extent, they are often a by-product of a financial administration strategy, rather than the result of placing the family intentionally at the center of the service delivery model.

Family needs extend beyond the purely financial; the FFFO can spearhead the initiatives needed to meet these needs, managing the family's total wealth for continuity and creating a lasting legacy.

> "To preserve and protect the family's well-being over multiple generations while simultaneously under-investing in it … is likely to fail. Generation to generation, the best financial and legal advice will not save a family from the erosion of character, purpose and cohesion that time is likely to inflict. A family must understand that its greatest asset is its family members, not its financial balance sheet, no matter how many zeroes that balance sheet might display."
>
> Scott Peppet, "The Family-Focused Office," *Family Firm Practitioner*, Family Firm Institute 2021.

Benefits of a family-focused family office

Cohesion and trust

Two main pillars of the FFFO are cohesion and trust. Transparency built on the foundations of good communication and interaction within enhances cohesion. Giving all family members a platform and voice for expressing their opinions, as well as sharing knowledge, strengthens the family enterprise, as it will add a more diverse range of opinions with respect to engagement and decision-making. Trust is also enhanced through family financial education as it helps each family member increase their own awareness, context and knowledge of the family's wealth, equipping them to be able to participate in meaningful intrafamily dialogue regarding their particular wealth circumstances.

Resilience

The FFFO can also help the family build resilience in several ways. If the family can communicate more effectively with intention and purpose, rising generation family members will be informed of matters pertaining to the family enterprise (as appropriate) and begin to contribute to some degree in decision-making. This can be done in incremental steps. First, by inviting them to observe decision-making by the current wealth-holders and decision-makers. Then, by integrating them as joint decision-makers with the longer-term goal of transitioning leadership. Note that this incremental approach does not translate immediately to delegation of decision-making authority; yet incorporating this type of apprenticeship model is a constructive way to build resilience and ensure proper transition.

This approach also honors and enhances the family governance structures through intentional tutelage. Transparency, effective communication and financial comprehension all contribute to mitigating the overall family enterprise's risks.

Alignment across the family enterprise
The family enterprise includes a multitude of moving parts and functions, all linked together by shared family ownership and family-led initiative. This fragmentation can create complexity, potentially resulting in miscommunication and mismanagement. The FFFO can assist in helping the family to understand that the enterprise is the sum of its parts, linked to form a whole.

This concept includes not only common ownership but also how the seemingly disparate parts of the enterprise often financially support each other, as well as how family initiative links them together.

Wealth preservation and growth
The purpose of the FFFO is to help the family preserve and grow its wealth while sustaining its core values across existing and future generations.[11] Preparing heirs for proper stewardship and an effective wealth transition is as important as prioritizing communication, trust and individuation among all family members.

Placing the family at the center of the service delivery model reinforces the likelihood that the wealth will continue to exist beyond the current living family members, and that the family will flourish within and across generations.

[11] Williams, Roy & Preisser, Vic, Preparing Heirs, *Five Steps to a Successful Transition of Family Wealth and Values*, Robert D. Reed Publishers, 2012.

Implementing a communication framework

> “The single biggest problem in communication is the illusion that it has taken place.”
>
> George Bernard Shaw,
> Irish playwright, critic,
> polemicist and political activist.

The FFFO can play a key role in designing and operating a communication framework across the family enterprise. Family offices already often serve as the default nerve center for the broader family with respect to communicating financial and business-related matters. This includes the family business, investment and financial information, fiduciary activity and administration, as well as philanthropic initiatives (including any grant making activity). The FFFO may also communicate non-business and non-financial information in the form of personal family news such as graduations, weddings, births and birthdays, along with other celebrations, achievements and life events. Such personal updates can be conveyed through newsletters, e-mails and recorded family member videos, as well as through in-person family meetings.

To effectively implement a family communication framework, a family should develop specific goals and objectives, being sure to differentiate between financial and business-related communications on the one hand, and personal family updates on the other. While these are not mutually exclusive, it is important to split the family according to who receives what information (and for what purpose). For example, it is often unnecessary for all family members to be privy to family business financials (especially non-owners). Some information needs to be kept private among the key stakeholders and decision-makers, without inappropriate interference.

As a next step, the communications' content, frequency and distribution channels should be determined. For instance, are reports and updates appropriate for relaying particular information or would face-to-face meetings be more likely to achieve a desired goal? The answer depends largely on what is being communicated and any subsequent decisions being made.

Notably, a communication framework and intentional engagement helps to demonstrate that the elder generation trusts the rising generation(s) with proprietary family information, and values their input. The flow of information from family leaders to the broader family helps to instill confidence. Conversely, seeking input from rising generation family members sends a signal from the elders that their perspective, views and priorities matter as well. Without this deliberate transparency, younger generations might resent the lack of opportunity to voice their opinions on matters which ultimately affect them. Good communication also contributes to the family's resilience by inviting a more diverse array of viewpoints on decisions that need to be made.

But a communication framework should respect the family governance mechanisms already in place for decision-making, taking into account how information is disseminated and presented to the broader family. Here, the FFFO has an opportunity to institutionalize the communication strategy so that it becomes scalable, repeatable and continuous. After the gathering of relevant information and production of various reports, an intentional communication framework should be designed to disseminate said information. Distribution of content can be done via reports not requiring feedback or shared either in writing or in-person, allowing for questions and exchange of ideas.

What's more, the FFFO can take a lead in scheduling time on the family calendar for family members to meet in person at various gatherings to further bolster communication exchange, and can help craft meeting agendas that include timely and relevant topics. In this way, the family office can help the family to align its enterprises, and to build and maintain a unified vision. Truly effective communication becomes a building block for forging stronger connections and bonds. By building a platform for multiple generations to communicate, the FFFO can promote family cohesion.

Strengthening connections

One family profile is that of the wealth creator living with his or her children while growing the family business. In this instance, the family communicates about its business and wealth enterprise naturally and informally, perhaps around the dinner table. Depending on the age of the children and the success of the business in those early years, financial conversations about the business may or may not take place. Over time, members of the second generation often become involved in the family business, which makes communication easier in many ways.

As families evolve through generations, some descendants may also join the business, but many may not. The farther removed generations are from the original wealth or business creator, the greater the possibility for less emotional, personal or professional engagement in the business. It is, therefore, critically important for the founding generation to effectively convey the importance of family engagement—and the benefits—for both individuals as well as the collective family unit.

Beyond generational distance from the founder, as families become larger and more geographically dispersed, they often interact less frequently, resulting in a lack of familiarity and close bonds. Moreover, as different personalities join the family, they bring new interests, values, experiences and points of view. To be sure, families are always evolving, never remaining static. While this dynamic strengthens the family in many ways, it can also undermine family connections, with consequent breakdowns in communication and trust. Yet an intentional and consistent program can remedy the situation, promoting family interaction and engagement that incorporates its shared history and identity.

This strengthening of bonds becomes even more important if the family shares ownership in a common enterprise, such as a family business. Helping a family strengthen its bonds and forge connections can help to develop a unified vision for the enterprise. In contrast, a lack of connection and familiarity can even affect the dynamic of fiduciary relationships, as extended relations such as aunts and uncles often serve as trustees for their siblings' children.

The key is to create intentional opportunities for family bonding, which can be done in a variety of ways. Some families purchase or rent a vacation compound large enough to host the extended family. The family then gathers there for several days each year. Alternatively, families vacation together each year at the same time and place. Both options foster family interaction, build familiarity and, hopefully, strengthen bonds.

There are additional ways in which to include recording the family origin story and displaying it on a private family social media platform or website. The family might also keep artifacts such as photos and press clippings related to its history. The family office often identifies third-party providers such as historians who capture family stories and histories. Recording interviews with elder family members leaves a verbal history of the family structure, the beginnings of the business, lessons learned along the way and the values they deem important. This can be especially meaningful. Such recordings might include the senior generation's hopes and aspirations for its children and grandchildren—even for generations not yet born. They can be build-able with more and more family members incorporating their stories and experiences to create a family narrative over time. On a more regular basis, writing family e-mails or newsletters makes the extended family aware of important milestones to celebrate and honor.

The FFFO can support these initiatives in several ways. For starters, it can help the family come together at mutually convenient times and locations. It can also help family leaders craft agendas for this time together, including time for family enterprise discussions, time to bond and discuss family history, as well as free time for the family to interact without a set agenda. In short, the FFFO can assist the family to make the most of its time together.

Intrafamily mentorship opportunities

By mentoring their younger relatives, the elder generation can forge connections and bonds. Certain elements of the family narrative can only be passed down from within. The family elders may want to emphasize their childhood recollections and values they acquired, along with the birth story of the family business, whether it began with them or earlier generations. Early memories often help start conversations about the importance of work ethic and relationship to money (having or not having it)—among other topics that can preserve the family legacy. Younger generations might want to share their world views and perspectives on how the family business should evolve. Further, mentorship provides an opportunity for financial education and comprehension, whether relating to business operations or preparing heirs for effective stewardship of the entire family enterprise.

Driving financial literacy

The family office should assist the family in designing a comprehensive financial education program that is age- and readiness-appropriate. This delivers financial educational services tailored to each family member, the family as a whole, as well as its linkage to the family enterprise. Families with a basic understanding of their financial lives and how they relate to the family enterprise are better positioned to make more informed decisions.

Family financial education can be explored on an individual, as well as a whole, family basis. For instance, the family can decide on the baseline financial concepts that each family member should have. From there, an individualized learning plan and process can be designed. Topics to explore might include investment management, estate planning and tax, and fiduciary administration.

Additional topics might include: asset classes, risk, diversification, time/value of money, budgeting, debt and credit, as well as financial planning. Financial education should also be tailored to what is relevant to the family enterprise. For instance, a real estate-owning family should have specific modules that teach the basics of real estate. Moreover, it should be noted that the goals and objectives of the family, as well as the family enterprise, will evolve over time. So, it follows that the family financial education should not remain static or singularly focused.

While the goal is not to make each family member a financial expert, this education should equip family members and family office staff to converse with the same basic financial fluency. Helping family members to have productive conversations with outside service providers such as investment advisors, attorneys and certified public accountants is a further benefit.

Financial literacy also promotes trust. If the rising generation has a baseline understanding of financial concepts, this helps to show the elder generation that it can make informed financial decisions. The rising generation can also see that their elders will let them contribute to decisions when appropriate.

Financial awareness helps to make the family enterprise more resilient, as the family becomes better informed about financial decisions.

Often some individual family members have greater financial fluency than others. However, all family members, regardless of age or expertise, should attend the program, as doing so sets an example for the entire family to follow. This contributes to a culture and legacy of inclusiveness by demonstrating that the family is committed to undertaking an effective financial wealth education program. This shared learning journey does not replace individual learning tracks—they are not mutually exclusive. But a shared experience creates bonding and encourages collective learning.

A variety of financial experts within the family's ecosystem, as well as outside advisors and institutions, can help educate the family. Individual family members all have different learning styles, thus having a range of options to call on results in more effective outcomes. The family office staff are often best positioned to enhance the family's overall understanding of its wealth and wealth structures. This includes the rationale for forming the wealth structures. External consultants can speak about best practices in wealth preservation and investment management. Outsourced expertise can include, but is not limited to, professional teachers and advisors who specialize in educating families and understand best practices.

A shared experience creates bonding and encourages collective learning.

They can also share anecdotally what they have seen work well and not work well in other family scenarios. However, it is important to note that third-party consultants are not best positioned to speak about the specific structure of the family enterprise or its history. There are exceptions to this rule, such as the long-time family attorney and other legacy advisors with in-depth knowledge of the family enterprise.

The mediums that can be employed are many, including in-person, one-on-one coaching sessions, as well as online or virtual mediums and family group sessions. One such in-person method includes conferences geared toward families that are offered by various business schools or academic institutes, which are designed to teach the basics of financial concepts. These conferences often offer various modules, from the introductory to more advanced. Another option is for family office staff to design financial education programs. Knowing the family enterprise, staff can design relevant programs and content.

While outside advisors are well-positioned to introduce financial concepts to the family, it is often effective to link direct, personal and real-life scenarios to the current family enterprise. Then education becomes more relevant to each family member, while simultaneously enhancing understanding of the family enterprise. Family governance mechanisms can be leveraged to incorporate teaching moments into daily operations, if appropriate.

Teaching moments can also be woven into board and committee meetings. If the family has a business, for example, it could be prudent to illustrate how a new lending facility can help pursue new opportunities but would also add financial risk to the business. Additionally, investment committee meetings could take time to explain the link between recent portfolio performance and market conditions. For instance, when speaking about the investment portfolio as it relates to a family foundation, the meeting might explain the sort of investment return needed to keep the portfolio growing sufficiently to pay required annual grant distributions, and the investment strategy implemented to achieve this. If family members who are undergoing the financial education do not sit on the relevant boards or committees, perhaps board observation rights can be granted to allow them to sit in and observe the discussions.

At the individual level, the FFFO, as part of the financial planning process, can design budgets for each family member and illustrate how the individual family member's budget links to the family business and the investment portfolio. This analysis would include how various spending levels affect investment portfolio growth.

Another opportunity is to introduce the family to the family office operations. The FFFO can link specific family office activities and initiatives to the family enterprise and demonstrate how the family office supports it. Understanding the inner workings of the family office and financial oversight can be illustrative—examples could include why it's prudent to create personalized financial reports, tracking expenses, how an investment portfolio is constructed and how manager due diligence is performed. The FFFO might also share what initiatives it is undertaking in a particular sector or industry.

Oftentimes, family members have a desire to learn about a specific area of the investment industry, such as venture capital, private equity or values-based investing, to name a few. Curiosity should be encouraged and supported by the family and the family office, which can weave in specific learnings based on such interests.

To this end, financial education should be viewed and designed as a long-term undertaking and incorporated into the family office service delivery model. The family office has a significant role to play and can help to design the curriculum, as it is well-positioned to understand what the family needs to know and identify any gaps in that knowledge. Moreover, family members across multiple generations and in different life stages will come to this process with varying perspectives. Financial education is not an isolated activity to conduct just a handful of times to check off a list. Rather, it is an ongoing, lifelong learning endeavor, and the family should be engaged by the family office in a holistic manner.

Fostering family development

"The most critical challenges families face are rarely financial."

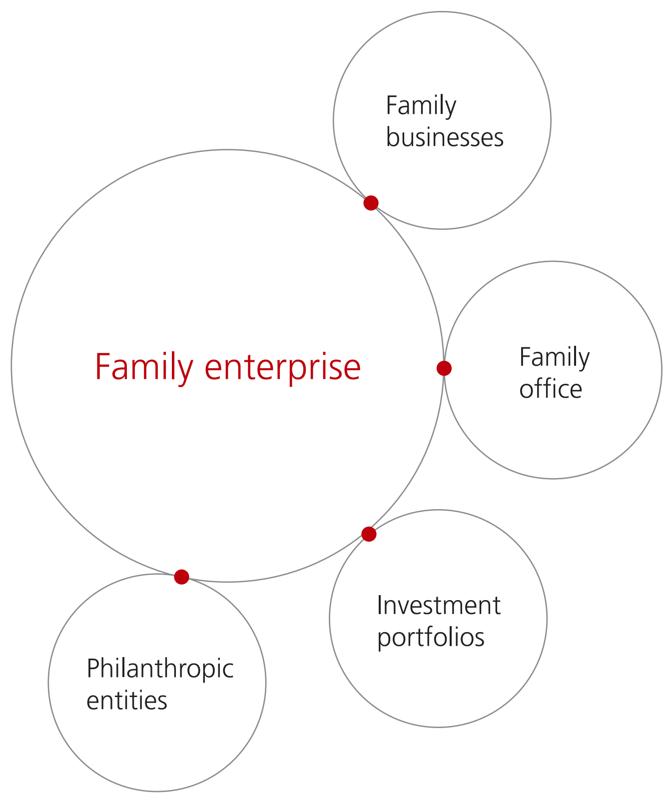
Charles W. Collier,
former senior philanthropic advisor at Harvard University and author of *Wealth in Families*.

Each family member has unique talents and interests. Often, however, these qualities get overlooked if they do not fit neatly into the family's existing enterprise. The FFFO can play a part, perhaps indirectly, in developing individual family members. Utilizing the five capitals framework to cultivate the qualitative capitals of each family member can help identify strengths, passions and purpose. Joining the family enterprise is not always the right outcome, so the family-focused family office can work with individual family members to tailor strategic plans for them to pursue their own paths. In this way, the family office is also uniquely positioned to identify how different interests and aptitudes across the family can add varied perspectives and help the family enterprise evolve—often in less traditional or expected ways.

To this end, the FFFO can assist the family in devising policies and processes to support family member development, whether for joining the family enterprise or not. For instance, many families establish clear requirements for younger family members seeking to enter the family business. They can include working for a specific number of years outside of the family business before joining (possibly in a related business or industry or even in a global capacity). Another requirement could include a mandatory level of education, such as obtaining an undergraduate or relevant graduate degree. Such expectations encourage family members to contribute new skills and experience to the family business. They also protect the family business from employing family members who just need a place to work but do not contribute meaningfully. These policies are designed to also help make the business and the broader family enterprise more resilient as family members will be better equipped to add value.

Another approach could include designing specific family roles within the family enterprise. For instance, various governing boards and committees provide forms of oversight and engagement. These can include family business boards, philanthropic boards and grant-making committees, family non-business-related boards and an investment committee. The family office can design a family training program to identify the right fit and opportunity for individual family members to participate in the family enterprise and acquire the right skills to thrive in those respective roles. Even those members who choose to work outside the business may become interested in ancillary engagement opportunities within the family enterprise through this process.

Family-focused family office structure



Facilitating family governance

The FFFO should help the family to organize and execute the work of the various governing entities of their family enterprise. These bodies might include (but not be limited to) a family council, family association, business board, investment committee, private trust company board and associated committees, as well as a private foundation board and its committees. While these are all separate family governing entities, the family office often already administers many of these disparate yet interrelated functions. Having the family office supporting the overall family's governance efforts helps to ensure that major decisions are subject to a central decision-making process.

The family office can facilitate family governance in a variety of ways

- Coordinating calendars of members.
- Facilitating meetings and setting agendas.
- Developing and delivering content and bringing in external professional content providers.
- Onboarding and orientation of new members.
- Ensuring appropriate governance oversight, operations and decision-making, using approved framework and policies.

While the family office's role in governance is chiefly administrative, it is nonetheless vital. Unless there is an emergency or crisis, it is tempting to postpone governance initiatives as people are busy, coordinating calendars can be difficult and governance may not be regarded as business critical. However, if family governance is chronically mismanaged there can be a cascading effect of weakening trust due to lack of communication and engagement. This might also contribute to a loss of strategic direction in the family business and other family enterprises. Indeed, lack of governance across the family enterprise can negatively impact financial circumstances and cause erosion in terms of trust and family cohesion.

The FFFO can also support governing bodies in creating an onboarding and orientation process for new family members stepping into governance roles. This ensures that each family member is well-versed in the dealings of the various governing bodies.

The governance design should also weave financial education into governance operations where appropriate. As noted earlier, doing so helps to ensure that the family communicates with a basic level of financial fluency.

The family office can take the lead in scheduling meetings, setting agendas (with input on content from relevant family members serving on various governing bodies), as well as sending out information to be discussed well in advance of specific governance meetings. Further, the family office should record the meeting minutes and disseminate them to the broader family using the family communication framework.

The family office can organize a central repository to store meeting minutes for recordkeeping, as well as other governance documents and materials so that they can be accessed and reviewed by the family as needed. This is a vital responsibility of the family office that ensures family governance initiatives are robust.

Promoting family values

Incorporating a values-based approach to the family enterprise acknowledges the importance of the "business of being a family" as distinct from the "family business." This creates a space for the family to flourish, as individuals and as a collective. Whether family members are expected to join the family business, are ready to join or want to do something else, it is critically important to spend time together exploring values and getting to know what is important to everyone.

This can be achieved by hosting family conversations facilitated by a neutral third party (and with support from the family office) that can include any/all of the below topics:

- Articulating, clarifying and sharing core values.
- Supporting separation and individuation.
- Focusing collectively on strengths.
- Parents/elders viewing themselves as teachers and learners.
- Sharing family history through stories.
- Celebrating and sustaining a sense of community with tradition.
- Encouraging and promoting an identity separate from the wealth.
- Regarding philanthropy as a shared focus.

Families that have dinners or vacation together might feel like they are convening around these topics, but wealthy families that thrive set a tone of intentional communication by engaging the entire family. They convene when times are good to make it easier when the family faces a difficult or new situation.[12]

These types of gatherings allow the family to talk about its values and vision for the future. It is worth repeating that understanding core values fosters a greater understanding of each family member's identity and aspirations, as well as what underlies personal decisions and motivations. Successful multigenerational families practice good communication and share a clear picture of the future based on their values.

[12] *Five Key Considerations for a Financial Windfall*, UBS 2022.

Legacy, purpose and values can be activated tangibly through the creation of any/all of the following: a family mission statement, purpose statement, family mantra, a family crest, constitution or a family charter. Studies of families that have succeeded across generations highlight the common factor being identifying their core values and then using those values to articulate a shared dream. A shared purpose is key to families flourishing.

Activating legacy, purpose and values

Family mission statement
A thoughtful family mission statement articulates a shared sense of purpose, provides a comfortable basis for ongoing dialogue, offers guidance to rising generation family members as to what the family is all about, and incorporates each family members' unique thoughts, talents and contributions.[13]

Purpose statement
Purpose serves as a guiding light that allows everyone to understand what they want to accomplish collectively. It instills the drive behind what one sets out to do and keeps everyone motivated to succeed throughout the journey and not just about getting to the final result. The purpose statement is derived from passion—from getting the sense of pride and accomplishment that goes with achieving agreed goals.[14]

Family mantra
A short and simple guiding statement that can be used to focus the family's priorities. The mantra is about setting intentions with a goal of evoking emotion and the actions following suit.[15]

Family crest
A symbol that provides insight into a family's ancestry. It might also include a few words or a motto that encapsulates shared values.

Family constitution
A document articulating the family's values and principles, defining objectives and how the family will make important decisions.[16]

Family charter
A written statement that serves as a record of a family's heritage, culture, ambitions for future success and methods for resolving conflict.[17]

[13] *An overview on family mission statements*, UBS 2022.
[14] Afdhel Aziz, *The Power Of Purpose: The 7 Elements Of A Great Purpose Statement (Part 1)*, *Forbes*, 2020.
[15] *An overview of family mission statements*, UBS 2022.
[16] Karin Prangley and Anne Warren, *We the Family: The Benefits of Creating a Famliy Constitution*, Brown Brothers Harriman & Co., 2017.
[17] *What every family should know about a family charter*, Dentons, 2021.

Supporting family philanthropy

Philanthropy can have a meaningful role as a shared endeavor for the family. This may be easier said than done if there are different levels of interest and history of philanthropic engagement across the family. A common misunderstanding is that younger generations might not have a role in the family's philanthropy if its mission has historically differed from what they care about. However, there are ways to honor everyone's individual philanthropic interests while creating an opportunity for the family to bond over shared passions.

In addition to supporting charities and causes as a family, charitable vehicles (namely private family foundations and in some cases donor-advised funds) can also serve as a platform for financial education and various learning vectors and exposure into nonprofit engagement. In fact, some families utilize their foundations' assets to teach investment strategies to younger generations when not ready to reveal the full extent of the family's net worth.

Some families also create professional opportunities for family members within the foundation—either as paid staff or as board or committee members. All of these opportunities have merit as professional career trajectories in their own right, and they can serve as veritable training opportunities for future or overlapping roles within the family business or family enterprise.

Some key benefits to getting involved in the family's philanthropy

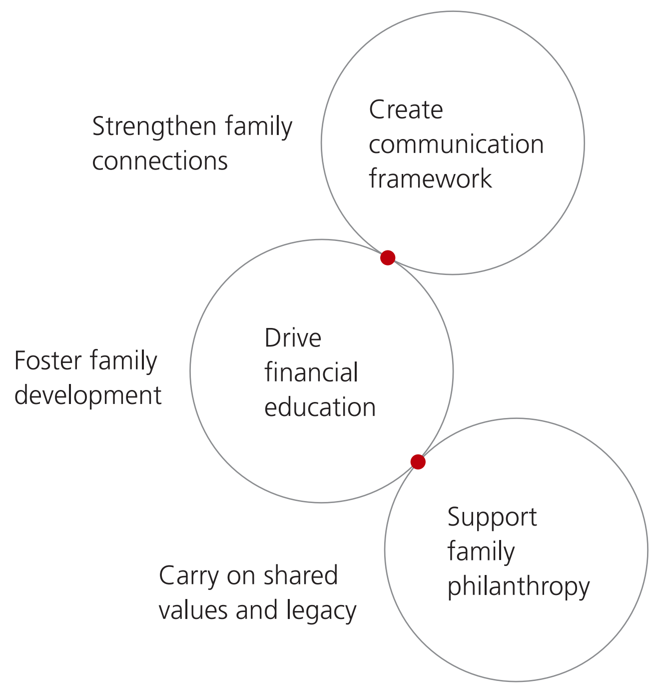
- Becoming better versed in the issues being supported by the foundation.
- Getting to know charitable organizations doing work in the thematic area of interest.
- Engaging in creating/updating the foundation mission statement (can build upon the family mission statement noted earlier).
- Learning how to conduct due diligence on researching organizations to support.
- Defining desired impact of grantmaking and determining what success looks like (both for the grantee organizations and the family in its philanthropic efforts).
- Serving on the foundation board and getting direct governance and oversight exposure.
- Becoming educated in the "business" of philanthropy in the following areas:
  - Investments (and how investment and risk strategies differ within a philanthropic construct)
  - Minimum distribution requirements and other IRS operating guidelines
  - Grant cycle and disbursement processes and execution
  - Tax filings
  - Innovative grant-making and social finance strategies as relevant and of interest (i.e., program-related investments, loans for impact, recoverable grants etc.).

Philanthropy provides a vast array of opportunities for engagement—for the family collectively as well as learning and activation opportunities for individual family members interested in dedicating meaningful time to philanthropy. The family office can support these efforts in a variety of ways, including (but not limited to):

- Setting a regular cadence of foundation meetings.
- Taking meeting minutes that capture grantmaking and other important decisions.
- Utilizing the foundation assets as a platform for financial education *(see section on financial education)*.
- Helping with administration of grant disbursements.

Family office facilitation of philanthropic initiatives can help to encourage communication, engender trust, experience shared values and support intergenerational engagement across the family.

Functions of the family-focused family office



Structuring for success

The first step in implementing the enhanced family-focused service offering is to understand the overarching goals and objectives of the family and then determine how the FFFO can support the family in achieving those goals.

To note, the resources and skills necessary to facilitate the function of a FFFO can differ from those required for more traditional financial administration. For instance, if existing family office staff are redeployed as "educators" for the family, this creates an entirely different relationship dynamic. As an alternative, third-party consultants and providers can design and deliver financial education curricula for families. They understand how to deliver and execute education programs and can apply best practices. Moreover, hiring neutral third-parties ensures that the family gets the most appropriate advisors to teach it. Paying a fee may also help to ensure that the family commits to the education program instead of postponing lessons. What's more, it may relieve any unnecessary and unfair burden on family office staff.

The family needs to embrace and take an active role in its own education. It should set aside time for learning to achieve the desired benefits. All of the courses should be designed with the explicit goal of helping the family make better financial decisions.

The FFFO can help the family articulate its goals and objectives for the financial education program. Then the family office should work with the family to develop a strategy, perhaps after speaking to outside consultants, as well as other families who have taken on similar endeavors. After that, the family can decide what external advisors it needs—whether attorneys, CPAs, financial advisors or philanthropy consultants. Designing the overall curriculum, as well as medium and methods, should also be outlined.

In addition to identifying the skills and areas of expertise required for the expanded role of a FFFO, a specific function such as "director of family engagement" can be useful for coordinating implementation of the new service delivery model, as well as engaging with the family.

For the family office to successfully execute the new strategy, it will need additional budget. The added expense and expansion of family office activities should be viewed as an investment in the family itself.

The new operating model will create a different dynamic in how the family engages with the family office and its staff. Growing pains should be expected from both the family office and the family itself, as both must adjust and adapt to a new and much more engaged operating culture.

Conclusion

A family's businesses, wealth and needs evolve over time.[18] And while the top three tasks typically performed within the family office include strategic asset allocation, risk management and financial accounting and reporting, revisiting the family office's management and structures ensures that it adapts to those changing needs. Moreover, a successful family office not only preserves and grows wealth, but also helps to achieve philanthropic objectives and preserve family values.[19]

Over time, families grow through marriages, births and blended families. Interests, passions, motivations and geographic locations become more varied. Yet values can play an important role in keeping families connected and rooted in their shared beliefs. This generative mindset, which is inclusive and embraces new members, will facilitate life transitions with resilience and cohesion. The FFFO can help steer those transitions and enable families to flourish for generations.

Values can play an important role in keeping families connected and rooted in their shared beliefs.

As previously noted, *the business of being a family* and *the family business* are inextricably linked, but require different types of support and engagement. Purpose can enhance the family's culture around the legacy it lives, as well as the one it chooses to leave for future generations.

The FFFO can serve as the nucleus for addressing the family's professional and personal needs, bridging "generations to create continuity and cohesion for families around their wealth" and all that is important to them.[20] This shift in the family office purpose can enhance the family's culture around the legacy it lives as well as the one it chooses to leave for future generations.

Please contact your UBS Financial Advisor to learn more about the FFFO structure and how it might be suitable for your family's particular goals and aspirations.

[18, 19, 20] *Building a family office to steward family wealth*, UBS 2023.

Questions to ask if considering a family-focused family office

- Does our current family office structure meet the broader needs of the family as presented in this paper?
- If not, does the concept of the FFFO resonate?
- What additional areas as introduced in this paper would be of value to incorporate into the family office function?
- What skills or expertise would be helpful to add in order to support this new FFFO structure?

Author biographies

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Mark joined UBS as the Family Office Design and Governance Specialist in the Family Office Solutions team within Private Wealth Management. Mark works closely with Advisors in Private Wealth Management, where Family Office Solutions delivers dedicated and comprehensive services to ultra high net worth clients and family offices.

In his role, Mark provides guidance on the family office space and a thought-partner to families with significant wealth. He advises families across the Americas on family office organizational design, structure and governance as well as operational best practices and strategy to manage and sustain their wealth for future generations.

Prior to joining UBS, Mark spent three and a half years with a NYC-based investment advisory firm. Here, he built their family office platform, which included designing the business plan, services, tech solutions, as well as vetting third-party professionals such as law firms and CPAs. He also counseled complex clients on their family office structuring, tax, estate planning, philanthropy and family governance and dynamic issues. He also counseled several families on liquidity event planning as part of the sale of their operating business.

Prior to joining the investment advisory firm, Mark spent a decade at a large midwestern single-family office where he served a dynastic, multigenerational family. Here, he was the family's General Counsel and advised on family office structuring, estate and income tax issues, as well as business formation and real estate development.

He also counseled the family on the sale of their publicly traded real estate company to Brookfield Asset Management in 2018.

Mark serves as a trustee and Chair of the Strategic Planning Committee at the Lillian and Betty Ratner School in Cleveland, OH. He received a BSE from Kent State University in 2004 and his JD from Case Western Reserve University in 2010. He holds his Series 65, 63 and Series 7 licenses.

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In January 2019, Nicole joined Family Office Solutions within UBS, serving as a Senior Strategist representing Family Advisory and Philanthropy Services Americas. Nicole works closely with Advisors in Private Wealth Management, where Family Office Solutions delivers dedicated and comprehensive services to ultra high net worth clients.

In this role, Nicole works with families on understanding values and philanthropic intent in the context of family wealth. She provides advice on family wealth education, communication and decision-making, multigenerational wealth transitions and family governance as well as on charitable vehicles and building and enhancing philanthropic legacies. She also helps clients to be strategic and impactful with their philanthropic giving.

Nicole joined UBS in 2014 to establish and lead the UBS Optimus Foundation presence in the US, a global network that supports programs focused on the potential to be transformative, scalable and sustainable in the areas of health, education and child protection. Under her leadership, the foundation platform became available to all clients and employees of UBS Financial Services Inc., and this offering now serves as a true differentiator and is a core component in delivering the firm.

Nicole has over two decades of experience in the nonprofit, philanthropic and corporate sectors, and brings a wealth of knowledge in nonprofit management, corporate and nonprofit governance, fundraising, performance assessment, leadership advisory services and policy research.

Previously, Nicole held roles with Heidrick & Struggles, Robin Hood Foundation, VCG Governance Matters, French-American Chamber of Commerce, Saint-Gobain Desjonquères, UNICEF and UNDP.

She has served as an Adjunct Professor at Columbia University, teaching a graduate-level strategic management course, and currently serves as an Adjunct Professor and Advisor for NYU Stern's Board Fellows Program, a year-long experiential class offered to second-year MBA candidates.

Nicole received her MPA from Columbia University and BA from SUNY Geneseo. She is a founding member of the Young Professionals Committee of Susan G. Komen for the Cure and previously served as a board member of the Women's Executive Circle of New York (WECNY). Nicole holds the Series 7 and 63 securities licenses and is a Chartered Advisor in Philanthropy (CAP®).