

FAMILY OFFICE

The Family-Focused Office

WEEKLY EDITION • NOVEMBER 10, 2021





From *FFI Practitioner*


This week's article continues *FFI Practitioner's* November series on topics related to the family office. Thank you to Scott Peppet for this article that makes the case that effective family offices be invest more time and budget in enterprising families' most important resource – the family.

Imagine sorting all of the hours and dollars spent over the course of a year within a typical single family office into three categories: money, legal, and family.

The “money” category would include all of the energy used to oversee and manage investments, as well as trustee fees, accounting, and anything else that generally accompanied tending to and growing the family's financial capital. Under “legal” we would include all of the work done to manage regulatory obligations, estate planning, tax strategy and preparation, insurance, and other risk management efforts. Finally, “family” would include the time and budget allocated directly to measures taken to improve the physical, mental, emotional, and spiritual health and well-being of the family, including family learning efforts, individual coaching and development, and relevant family meetings or retreats.

What would we find?

In most family offices, the *MLF ratio* (i.e., money, legal, family) would probably amount to sixty percent / thirty percent / ten percent. This not a claim for which we have solid research, of course. Anecdotal reports from families and family office professionals suggest that most family offices spend most of their time managing money, followed closely by a fair amount of effort mitigating legal, regulatory, and tax risk. As a percentage of budget and time spent, the family's health and growth are usually a very distant third.



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Even this ten-percent allocation to family well-being may be generous. In some offices, the “family” category is closer to zero. I have come across family office leaders, for example, that have never met some or all of the family members they serve. It is hard to imagine them having much focus on the family’s development. And even in less extreme situations, much of what might at first glance appear to fit within the “family” category may in fact be time spent by the family on financial and legal risks. For example, if someone were to tally the time allocated to each category in family meetings or retreats and apply the MLF ratio to the allocations, one discovers that such gatherings are almost exclusively focused on business reviews, portfolio summaries, financial education, and tax and estate planning issues. What looks like “family” time is often actually consumed by financial and legal planning.

What’s the Problem?

If a family system’s MLF ratio is skewed in this way, the family and their advisors are attempting something quixotic: to preserve and protect the family’s well-being over multiple generations while simultaneously radically underinvesting in it. This 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.* Likewise, a family office must understand that its ultimate purpose is to invest in and steward the human beings in its care, not the dollars in its coffers.

A “family-focused office” that truly understands this mission is quite different in purpose, strategy, and priorities from the typical 60/30/10 “family office.” It is in the wealth preservation business, but in the broadest sense of the term. The word “wealth” does not merely mean money. It means happiness, welfare, and all the tangible and intangible indicators of flourishing. This is not mere semantics. Whereas a typical family office may see its role as protecting a family’s financial “wealth,” a truly family-focused office understands that it exists for this broader purpose.

Sidebar



Family Office Technology: An interview with Tania Neild

FFI Practitioner
by Tania Neild and Mary Duke

With today’s article, we introduce a month-long series on topics related to the family office. Today’s issue features an interview with Tania Neild by FFI Fellow and board member Mary Duke. Their topic is the sometimes-complicated issue of the use of technology in family offices.

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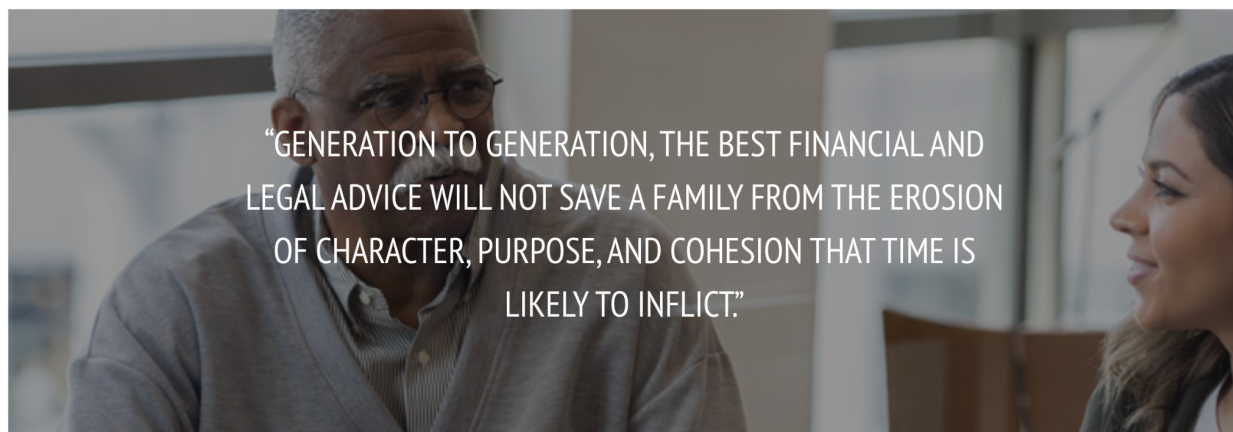
Many families are overinvesting in caring for their financial capital and underinvesting in their human capital. I have worked with very wealthy families that have every financial and legal advisor one could hope for, and the very best advice money can buy, but are still under-resourced when it comes to nurturing the family itself.

The irony is that investing in the family is critical to protecting its financial assets; without strong individuals at its core and strong family connections between those individuals, a family's financial capital tends to dissipate quickly. So being family focused turns out to be financially savvy. It is unwise for an office to try to become more family focused for these instrumental reasons, however. The effort is unlikely to succeed if it is merely a disguised attempt to further shore up the financial capital. In this arena, intentions matter.

Why The Status Quo?

There are many reasons for the pattern of underinvesting in the family's human capital. First may be habit. If every family meeting for twenty years has focused primarily on reviewing the family's financial investments, that is what the family and the family office staff will expect. It may be hard for them to imagine an agenda that emphasizes human capital.

The second reason may be restrictive assumptions about roles, responsibilities, and the tasks at hand. Family offices are full of technical professionals, but very few from the helping professions, including social workers, mediators, coaches, or members of the ministry. Family offices tend towards the short-term and transactional, rather than the long-term and transformational. This means that even their work in the "family" category is often discrete and task-oriented: getting through this family meeting or that trust review. Moreover, many family office professionals are quick to say, "I'm not a therapist" any time the messy business of family comes up. Sometimes this is wise maintenance of good professional boundaries. But far short of therapy, there is enormous work to be done educating the family and helping to steward its members. If the family office isn't actively promoting and protecting the family's overall long-term health and welfare, who is?

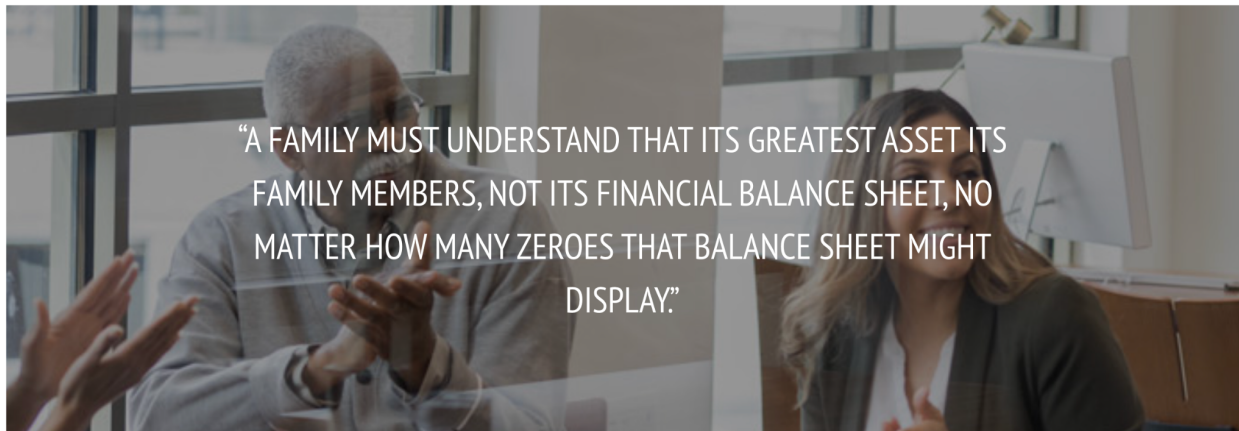


Third may be ignorance of what it means to place the family's human capital at the center of the family office's work. It is hard to hit a target without knowing what it looks like. I often ask family members and family office staff whether they can imagine drafting a two-day family meeting agenda that spends *no* time on reviewing financial capital. I often get blank stares in return. "Two whole days without talking about the money? What would we spend our time on?" Such a response suggests a lack of understanding about how to prioritize the family's human capital.

Finally, I find that many family members do not believe that they are their family's most important asset. Years of meetings focused on financial capital may have taken a cynical toll: the family may have internalized the implicit message that the money, not the family, is what matters. Or family members may just question their value, place in the world, or importance. Many multigenerational family enterprises are launched by a charismatic and highly successful founder who can leave a legacy of self-doubt amongst family members that they never feel they measure up. Whatever its genesis, this endemic doubt may inhibit a family from demanding that its advisors become more family focused. Without such family pressure, family office professionals often stay within their comfort zone: financial and legal topics.

How to Change?

It is important to zero in on what, exactly, needs to change for a family office to truly be “family-focused.” To be clear, this shift is *not* about ignoring financial capital or legal risk. It is difficult to protect a family's financial capital over a long period of time: managing the M & L takes serious expertise, diligence, and loyalty. Nothing said here is meant to detract from that work.



Instead, my purpose is to open the aperture so that family office personnel and the family members they serve see the full range of topics that deserve attention. A family-focused office must build internal expertise relevant to helping each individual family member flourish in their chosen life. Further, it must help the family become self-aware of the investment of time and effort it can and should make in this regard. Such work includes, but is not limited to, assessing the physical and mental health of the family's members; focusing on the importance of meaningful work; building relational and communication skills to deal with conflict and difficulty; learning to integrate financial capital into a healthy life; being honest about privilege and inequality and the societal issues they create; building a family culture of lifelong learning; and finding spiritual purpose and meaning. If one is trying to shift a system with a 60/30/10 MLF ratio, “money” and “legal” must—at least for some period—be moved to the background so that more human capital-oriented topics can come to the fore.

As a family and its office do this work, they should see it not as a new cost center, but as a capital investment in the human capital of the family. Just as one makes capital investments for financial return, one makes capital investments for human return. Being truly “family-focused” means putting the ongoing success, health, growth, and integrity of each individual family member at the core of what the family office does every day. It requires entering into real relationship with each family member, learning their issues and hopes, and developing a deep ethic of service in the office that sees stewardship of the family's human capital as a primary mission. It requires listening and connection, and a genuine commitment to continuous learning. Ultimately, however, it is the most rewarding path that a family and its advisors can take together.

About the Contributor



Scott Peppet is the President of the Chai Trust Company, the family office of his father-in-law, Chicago entrepreneur Sam Zell. His background is in law and finance; he was a Professor of Law at the University of Colorado from 2000-2018, where he focused on bargaining & dispute resolution, various aspects of transactional law, and the complexities of multigenerational family enterprises. He is a regular speaker about family offices, private trust companies, intergenerational leadership, and “marrying in” to an enterprising family. He maintains an active blog about such issues at www.scottpeppet.com, and he can be reached at speppet@chaitrust.com.

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