Family offices: Qualities to beat the crisis

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A study reveals why 15 percent of family offices weathered the storm of the financial crisis in 2008-2009 and turned a profit.

The study, "Benchmarking the Single Family Office: Identifying the Performance Drivers," shows that, despite the economic crisis, 15 percent of the family offices polled turned a profit as of the second half of 2008 and in the first half of 2009.

The survey looked at 167 family offices around the world. Of the families who took part in the study, all of them manage at least $100 million that can be invested, and nearly half of those who participated in the study manage more than $1 billion.

With the data they obtained, the authors created a reference framework for defining the quality-related attributes of family offices. Linking management practices to profitability, the study identified the following features of a family office with the best profitability or highest quality:

1. *Hiring internal personnel for asset management and implementing more active corporate governance structures through committees*, e.g., audit committees, investment committees, management committees and so on. European family offices boast a closer style of management and achieve better results than American ones.
2. *An "entrepreneurial mentality" that offers internal staff a series of incentives*, such as bonuses, profit sharing or opportunities for co-investment. The study notes that these incentives "transform the profile of a manager from a mere administrator to an entrepreneur who takes an interest and participates actively in the business."
3. *Emphasis on succession plans and training of future generations*. The study's quality

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index shows a direct relationship between profitability and organized training programs and the transfer of knowledge. The report states that families that include successive generations in their plans "are happier than others because they manage to balance their personal wealth with entrepreneurial creativity, philanthropy and leadership in society."

This study establishes a reference framework for financial profitability, good governance and management of a family office, with the goal of making it useful for families all over the world.

Although there is a widespread belief that investors who subcontract earn higher profits, this study shows the exact opposite: family offices with greater control over their assets, and employees who participate in all the operations, turn a higher profit than those that farm out such services.

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