UPDATE

Ch-Ch-Ch Changes: 4 Signs It's Time to Rethink Your SFO

Single family offices (SFOs) have long been an established way for wealthy families to create accountability and structure around the myriad needs of family members.Today, more and more wealthy families are attempting to use SFOs to manage complex investment structures, meet the needs of multiple households, and keep family members informed and connected.

In fact, the number of SFOs worldwide has doubled to 10,000 in the last 15 years, according to the EY Family Office Guide. This trend is projected to continue as wealthy families continue to grow and prosper. In a recent Marsh Family Office Benchmarking Survey, nearly two thirds of affluent families said they will need more family office support in the future.

That growing demand is no surprise for family office executives who have helped wealthy families grow and evolve as new generations enter the fold. Yet for families, foreseeing and preparing for the complexities that come with that growth is a singular challenge. Many SFOs are not equipped to accommodate needs that emerge as families expand. The very characteristics that made an SFO a suitable solution for a wealth creator suddenly become problematic for multi-generational families. At the center of that struggle are two conflicting SFO traits – control and scale.

Control and Scale – A Balancing Act

Most wealthy families can trace the origins of their SFOs back to the family business itself. A first-generation wealth creator manages his or her personal financial needs within the established structure of the business' operating structure. When the owner sells the business, he or she transitions their personal financial structure into an SFO to manage the liquidity event and oversee the family finances and other established services going forward.

At this stage, SFOs are all about control. The SFO is typically structured to serve a small number of individuals who are closely aligned with the wealth creator's values and vision. But as a family grows, the ability to scale services to meet the needs of more family members grows in importance.

This friction between control and scale typically becomes most apparent, and problematic, during generational transfers. In these times of transition, both family and financial dynamics can put great strain on an SFO. The result is a less cost-effective family wealth structure and the potential for irreparable damage to family relationships.

Rethinking the SFO Structure

Sustaining wealth over generations means fostering an oversight structure that maximizes performance and positive outcomes while limiting expenses. Family leaders are focused on finding sustainable ways to deliver services. They need to be practical and outcome-oriented in evaluating the family office and if it's meeting the needs of the entire family.

Yet decades of experience has revealed that families too often fail to recognize – or choose to ignore – early signs that an existing SFO structure is cost prohibitive or failing to meet a family's shifting needs. In working with countless families to navigate liquidity events and generational transfers, four clear early indicators have emerged. Wealthy families who experience any of these four shifts should stop and evaluate if there's a better, more sustainable approach to their family office needs.

1. Your SFO is serving more households.
Often, an SFO's breaking point first becomes apparent as its services are stretched to accommodate more households. Many families undergoing transitions are also seeing older generations enjoy greater longevity, leading to a significant increase in the number of households under the family umbrella. The family's SFO must either find ways to serve more households with the current level of staffing and resources, or it must increase employees and spending, calling into question its cost-effectiveness. It is widely suggested that in order to run an SFO, a family's assets should be around $200 million or more.

The reality is a family office set up to serve four or five households will always struggle to sustainably service a dozen or more. This struggle will have financial impact as well. Assets structured to support a limited number of family units may not have the same benefits when spread across a growing number of households.

2. Your SFO leadership is changing.
SFO leaders are often considered a part of the families they serve. In many cases, they literally are part of the family. About half of

SFOs are led by family members, according to Family Wealth Alliance research. When the individual at the helm of their SFO is not a family member, the family typically still has a long and trusted relationship with the leader. Family members use words like "superstar" and "irreplaceable" to describe them.

It's no surprise, then, that when a CEO or other SFO leader steps down, the impact is felt across a wide range of family and financial dynamics. They developed specific practical and personal skills to meet the family's needs, and they knew the family's preferences inside and out. Often, SFO leaders remain in their position out of loyalty to the family, in most cases to the patriarch or matriarch, and their departure coincides with a generational transfer.

When the departing SFO leader is a family member, the challenges can be just as great. It often shakes up family politics, and a new decision maker must fill the void. In some cases, multiple family members think they're the best fit to take on that role, whether they have the necessary skills or not. In other cases, no one wants it.

In reality, what families typically perceive as a staffing need is actually a larger inflection point facing their SFO. A departing SFO leader is an opportunity to evaluate the role an SFO plays in supporting a family through future generations.

3. Your technology costs are becoming prohibitive.

The push and pull of control and scale plays out in the technology demands of wealthy families as well. Technology needs can change quickly, and maintaining systems that can incorporate new products and features is an expensive necessity. The cost can quickly become untenable for SFOs. It's little wonder Deloitte found that technology is the service most often outsourced by family offices. Experience has taught us that few SFOs have the appropriate skills, infrastructure, or resources to provide these services.

When it comes to cybersecurity, hands-on experience and research point to the same conclusion – the threat is real, and the stakes are tremendously high. According to a study by Schillings and Campden Research, more than a quarter of international families, family offices, and family businesses have suffered an attack.

Staying ahead of cyber threats to financial data and family privacy is a huge expense. Yet most wealthy families share the sentiment that privacy is a luxury worth paying for. That doesn't mean an existing SFO structure is the most cost-effective or comprehensive way to achieve it.

4. Your family members are less connected.

As more individuals marry into a family and more children are born, the disconnect between family leaders, wealth creators, and family values and legacy can grow along with it. Just as an SFO may not be structured to incorporate an increasing number of households, many are not designed to accommodate differing voices, opinions, and priorities. Even families who recognize these shortcomings aren't eager to address them out in the open. They fear these difficult conversations might cause further damage to relationships.

Often, this effect is cyclical. Family members feel a lack of control and influence in how the SFO is run, which creates additional strife and discord among households. Again, SFOs feel this strain most during generational transfers.

Ideally, an SFO would serve as a guiding force in generational transitions. SFOs can play a key role in maintaining family values, establishing a family governance structure, and managing interpersonal conflicts. But the SFO must be set up to tackle these functions in an inclusive, sustainable way. If family members perceive that an SFO is not built to serve everyone or family services are not being distributed fairly, the structure can actually do more harm than good. Taking a practical look at the systems in place to serve your growing family is key to maintaining family cohesion into future generations.

A Proactive Approach to Family Legacy

Every family has different needs, and every family will employ a different structure to meet those needs. Whatever structure a family utilizes, it's important to be proactive about maintaining a sustainable solution that accounts for the complexity that comes with additional households, shifting family dynamics, rising technology costs, and staffing changes. Only an approach focused on solving both the family and financial needs will be effective in perpetuating a family's legacy over generations. P

About Pitcairn

Pitcairn is a true family office and leader in helping families navigate the challenges and opportunities created by the interplay of family and financial dynamics. Wealth Momentum®, an experience-based family office model, helps families achieve a more effective and complete experience. Since its inception, Pitcairn has partnered with some of the world's wealthiest families to meet their needs and drive better outcomes – year to year, decade to decade, generation to generation. Today, Pitcairn is recognized as an innovator, guiding families through generational transitions and redefining the industry standard for family offices. The firm is located in Philadelphia, with offices in New York and Washington, DC and a network of resources around the world. You can learn more about our family office services as well as find additional articles, news, and events on our website at www.pitcairn.com.

PITCAIRN

Philadelphia
One Pitcairn Place
Suite 3000
165 Township Line Road
Jenkintown, PA 19046-3593

New York
Representative Office
99 Park Avenue
Suite 320
New York, NY 10016-1501

Washington, DC
Tysons II
Suite 220
1750 Tysons Boulevard
McLean, VA 22102-4228