The Changing Face of Family Offices in Europe

The tumultuous events of the last two decades have affected European family offices differently, in accordance with the continent's diversity.

Over the last 20 years, the **family office** (FO) concept has spread from the United States through Europe to Asia. In the process, FOs have been subject to the influence of local institutional environments affected by tumultuous economic and political events, from the global financial crisis to ascendant nationalism and conflictual politics within the European Union.

There was surprisingly little information available about cross-national comparisons and the co-evolution of contexts and FOs over time, despite the fact that FOs are often central advisors to families and their businesses in many countries.

Hence, the impetus behind our new research, which is focused on Europe. We examined the dynamics across the three dimensions which comprise institutional environments, according to academic research:

- Regulative (formal rules and laws)
- Normative (cultural standards that determine the behaviours and goals that are considered desirable)
- Cognitive (shaped by prevailing symbolic perceptions and attitudes).

The study

We content-analysed the press coverage of FOs in the UK-based ***Financial Times***, the Swiss ***Neue Z ürcher Zeitung***, the German ***Handelsblatt*** and the French ***Le Monde*** from 2000 to 2018 – a total of 1330 articles – to examine how and why the three dimensions change over time and how these changes affect FOs.

The importance of family offices differs across these countries. The UK is the leading centre for financial services in Europe, especially the country's capital London. In Switzerland (not an EU member), private banking and financial services for international investors are well-established. It has the highest number of family offices in Europe. Europe's largest economy, Germany, is shaped by traditional, medium-sized family-owned businesses and driven by the expectation of the transfer of wealth from one generation to the next. In France, many families sell their business after its founder's death and invest the money resulting from the sale via a system of holding companies and family offices because French legislation hampers the transfer of wealth and ownership from one generation to the next.

Based on significant incidents affecting the European economy, we divided the newspaper coverage into four study periods.

- Period 1 (2000-2002) included the crash of

the dot-com bubble after excessive speculation in the 1990s and its impact on global financial investment.
- Period 2 (2003-2006) was a period of transition and recovery from the economic downturn in 2001.
- Period 3 (2007-2011) encompassed the global financial crisis and the re-stabilisation of the financial markets in its aftermath.
- Period 4 (2012-2018) was shaped by increased regulation and the prospect of the UK leaving the EU.

The regulative dimension

The articles reveal substantial changes in regulation in Switzerland, the UK, and France in Period 3 and even more in Period 4, but no change in Germany. Some changes worsened the environment for FOs. For instance, in the UK, the abolition of tax-exempt status for a significant portion of wealthy individuals non-domiciled in the country hurt FOs. In France, increased taxation of vast fortunes reduced the attractiveness of the nation for this type of financial actor and encouraged investment in trusts to mitigate the tax burden.

For internal and external reasons, three countries implemented regulations that negatively affected FOs. Internal factors triggered the higher taxation of big fortunes in France and increased taxation of wealthy individuals non-domiciled in the UK. In Switzerland, however, external pressure in terms of regulatory changes in the US and EU led to tighter regulation of FOs.

The advent of FOs in France led to the formation of the ***Association française du Family Office*** (AFFO) in October 2001. Its aim was to specify common standards for FO professionals in the early stage of market development. In 2014, Germany's ***Verband unabhängiger Family Offices*** (VuFO, Association of Independent Family Offices) was founded to pursue the interests of its members towards national legislative bodies and authorities. In France, the presence of AFFO enhanced the reputation and improved the environment for family offices. VuFO has yet to achieve this goal in Germany.

We believe this may be because the founding members of the AFFO were well-established within the French financial system. They represented renowned private banks, wealth managers and dedicated family business advisors. In contrast, the VuFO founders attempted to protect a family office concept that was not aligned with the interests of the financial elite. Specifically, VuFO aims at confining the FO concept to providers that do not sell their own financial products, which rarely applies to banks.

The normative dimension

The growth in global wealth and the internationalisation of families pursuing entrepreneurial opportunities all over the world nurtured an increase in demand for multi-family offices with branches in several countries, expertise in multiple fields and jurisdictions and cross-disciplinary teams of advisors.

Since the financial crisis, FOs have benefited from families' erosion of trust in the banking industry and their demand for trusted advisors who do not insist on selling their own institutions' financial products. Although the banking industry implemented regulatory changes and tighter control in the aftermath of the financial crisis, wealthy clients' distrust of the institution persists. Many families did not perhaps consider the sector's repair mechanisms persuasive and thus turned to family offices.

The cognitive dimension

The tenor of media coverage about FOs is favourable overall, but more so in Periods 1 and 2 than the later ones. Any criticism levelled against family offices either adopts a societal or a client perspective.

The critique from a societal perspective was most pronounced in France. Unfavourable coverage focused on a tax evasion scandal that illustrated the close ties between the economic and political elite in the country. The suspicion that these ties had facilitated tax evasion on a large scale was present in articles, portraying FOs in an unfavourable light. Switzerland also experienced a tax evasion scandal. However, the negative coverage was directed more towards the accused individual than FOs in general. Thus, the scandal did not tarnish the reputation of FOs.

From a client perspective, the primary sources of criticism were insufficient competence and conflicts of interest. In the UK, the competence-based critique was dominant. Many FOs had been caught out by the financial crisis. There was the view that the lack of effective corporate governance had exacerbated this problem. In Germany, a perceived conflict of interest between providers of family office services, such as bank-affiliated family offices, and their clients attracted more attention than in the UK. German coverage damaged the reputation of FOs as it impacted the trust between these organisations and their clients.

The impact of national contexts

Overall, the study highlights changes, especially in the regulative and cognitive dimensions, but the drivers of change differ across countries. Since 2000, mainly external factors have triggered change in Switzerland; internal drivers have prevailed in France and the UK. This disparity may indicate differences in the centrality and salience of influential stakeholder groups in the four countries studied.

In the future, we expect increasing diversity across national institutional contexts in Europe, driven by continued global political (e.g. Brexit) and economic uncertainty. We also expect that increasingly internationally minded wealth owners and their families will demand an ever-broader range of services covering multiple areas of expertise and jurisdictions. The objectives and roles of FOs will thus continue to be subject to developments in the national institutional contexts in which they are embedded.

This article is based on a study entitled ***"Family Offices and Institutional Change in Europe: A Comparative Analysis"*** *by Dr Carolin Decker-Lange (The Open University, UK) and Dr Knut Lange (Royal Holloway, University of London, UK). It was presented at the* ***Academy of Management 2019 Annual Meeting*** *in Boston (US) and the* ***British Academy of Management 2019 Conference*** *in Birmingham (UK).*

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