Why You Should Care About Family Office Values

Asian family offices are at a nascent stage of development; while they are keen to progress, there are clear philosophies they don’t see the need to change.

A CEO (and family member) in an established family office poignantly told me recently, “my accountability is vis-à-vis my family, nobody else. We have a certain philosophy of going about matters and our very own risk profile and that’s that. This flexibility is why we opted for a family office in the first place and we see no need to replace this by a more measured approach.” It’s an attitude prevalent amongst Asia’s growing number of wealthy families, to the frustration of many outside advisors brought in to help them manage their assets.

Family offices are becoming increasingly sought after in Asia, growing from less than 50 in 2008 to between 100 and 200 in 2013, most being headquartered in Dubai, Hong Kong and Singapore with the latter two home to over 75 percent of family offices established over the last decade, according to a recent INSEAD and Pictet & Cie report. Unlike Europe where complex family structures date back centuries, much of Asia’s wealth is relatively new, with first or second generation members often leading key decision-making ensuring a tighter degree of control and more hands-on management.

While the growth is encouraging, most of the family offices interviewed for the report are still at an early stage of sophistication, characterised by less process-driven investment decision-making and diversification.

This presents an opportunity for wealth management experts to manage this growing but disorderly wealth. But there are challenges. The individual characteristics of each family office are likely to be diverse, with families driven by the unique priorities of first generation wealth creators and the comfort they feel with less sophisticated forms of wealth management. Hierarchy also plays a role, with a high reliance on the family patriarch or matriarch for both investment and non-investment decisions. All of which reflects the view of our CEO above, who opted for a family office, but sticks resolutely to his own family’s way of doing things.

From family to business

This will have big implications for anyone looking to manage family wealth. The term family office in its modern sense originated in 19th century North America. Wealthy families like the Rockefellers had their investment or ‘private’ assets managed in a professional way. In other countries, especially the U.K., wealth was largely built on land, which led to the use of the term “estate office”. Family offices in the modern sense did not emerge until much later and vary according to the different set-ups of different families. In its broadest form, a family office exists to manage a family’s private wealth; as opposed to business wealth. Increasingly, another distinction is drawn between a single family office,
which would cater to the needs of one family, and a
multi-family office, which manages the wealth of
several.

While there may be varying shapes and definitions
of the term “family office”, there is consensus
regarding the core needs it serves. These include:
separating business from private property, thus
creating order and accountability; planning for
wealth transition within a family; and organising the
long-term protection of a family’s assets.

Asian family offices are at an early juncture of
separating private from business interests and
devising a structure and framework to hold and
invest their private wealth. At this nascent stage
family members rather than professionals will
generally lead the set up process and run the family
office. As the degree of professionalisation
increases the more ‘advanced’ the family office will
become.

Why is institutionalisation important?
The composition at the nascent stage has an
interesting correlation with both the expectations
regarding performance as well as the actual
performance achieved. As investment screening
processes are only emerging returns are likely to
vary widely. For example, families may make use of
their networks as well as their entrepreneurial
intuitions as a successful family to make investment
decisions. They also tend to adopt a high risk/high
return strategy with the well-known advantages and
risks. As the family office advances, processes
become more streamlined and returns more
consistent and less volatile; but not necessarily
higher.

Some families, however, may opt to keep the
investment strategy of a nascent stage well into an
otherwise advanced family office set up.

The value of family offices
Family offices serve a unique and valuable purpose,
consolidating the investment activities of the family,
defining financial as well as personal goals, such as
succession, and ensuring the protection of a family’s
assets. Asian families are starting to see the benefits
of putting it all “under one roof” but anyone
managing their family office is going to find
themselves up against entrenched beliefs in the
family’s own track record. While instituting things
like formal governance structures might be
commonplace in a European family office, Asian
family offices have yet to see the benefits.

As wealth managers attempt to demonstrate how
family offices offer consistency and efficiency
they’re likely to come up against entrenched first