Why You Should Care About Family Office Values

By Britta Pfister , Distinguished Fellow, INSEAD Global Private Equity Initiative

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 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 professionalization 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 generation owners who don't see the need to drastically change what has already made them wealthy. To maintain their relationship with a very hands-on family keen to understand where the value is coming from and why, wealth managers will have to show diligence and patience.

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