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Looking for the perfect structure: The evolution of family office from a long-term perspective*

En busca de la estructura perfecta: La evolución de las family office en perspectiva a largo plazo

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1. INTRODUCTION

The analysis of the particularities of Family Business as a field of research has undergone a remarkable growth in the international academic arena during the last decades. However, a brief review of the main literature of the field demonstrates that several concepts emerge within the term "family business", namely: family firms; other kinds of companies and institutions, such as philanthropic institutions or trust; and families in business in general, *i.e.* enterprising families who own companies and are behind all the corporative-business structures. Each of these concepts has received very different attention from management scholars. Most of the studies have in fact focused on the family firms, seeking to understand if these types of companies really are different from other business organizations, and what the "family effect" on firm performance is. These questions have led the research in family business during the last decades and have shed light on several important aspect of the field. On the other hand,

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EXECUTIVE SUMMARY

Since the 1960s, the growth of infrastructure related to family business education, and the development of family business centres and professional associations enabled the transfer of new ideas about management. By doing so, consultant, institutions and scholars encouraged a process of change of family firms that also affected other types of companies, *i.e.* family offices, organizations to protect their particular family's investments and assets for both current and subsequent generations. Clearly, the family office was not a new concept, but the changes operated in the family business field allowed its transformation into professional organizations.

RESUMEN DEL ARTÍCULO

Desde los años sesenta del siglo XX, el crecimiento de la infraestructura relacionada con la educación en empresa familiar, incluido el desarrollo de centros y asociaciones profesionales específicos, ha permitido la transferencia de nuevas ideas y tendencias en dirección de empresas. Consultores, instituciones y académicos han impulsado un proceso de cambio en las empresas familiares que también ha afectado a otro tipo de compañías, las *family offices*, organizaciones creadas para gestionar las inversiones de la familia y el patrimonio de las generaciones presentes y futuras. Claramente, las *family offices* no son un concepto nuevo, pero las innovaciones operadas en la disciplina de empresa familiar han permitido su transformación en organizaciones profesionales.

putting the focal point on the family firm has sometimes distracted the scholar from seeing the whole picture, i.e. all the instruments designed by the enterprising family to develop their business activity and coordinate their presence in society. The rest of the corporative institutions, for example family offices or philanthropic institutions, have received scarce attention from the academic community.

Accordingly, the present article focuses on this relatively neglected topic within the study of family business by contributing to the debate with research in family offices. Specifically, the objective of this research is to explore the evolution of family offices from a long-term perspective.

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2. FAMILY OFFICE: AN OLD CONCEPT?

But what is a family office? Did the concept really only come into existence in the 1970s-1980s?

We can define the term 'family office' as a private office for managing and preserving the wealth of the proprietary family. In this line, we can assert that a lot of wealthy enterprising families in the 19th and 20th centuries had a family office. In fact, some scholars have pointed out family offices that began during the Roman Empire (Liechtenstein *et al.*, 2008). More recently, during industrialization, families used these family offices to invest in new business opportunities.

There existed, therefore, entities to manage the family patrimony and to advise families in managing their patrimonies. A paradigmatic example is the House of Morgan founded in the 19th century, which was a private bank of the Morgan family that offered its expertise in managing a considerable fortune and other matters related to the maintenance of patrimonies to families such as the Astros, Guggenheims, Duponts and Vanderbilts. Some scholars argue that this institution marks the birth of the so-called "affiliated multifamily office" in the United States (Gray, 2005).

However, it should be noted that in 19th century Europe, it was common for wealthy families to be advised by private banks in managing their assets. Institutions such as the Pictet & Co. Bank have managed family wealth since the 19th century. Of course, these entities were not responsible for the transmission of the family legacy or for training successors.

3. "GIVE A DOG-WALKER A NEW NAME": SIGNIFICANT CHANGES IN FAMILY OFFICES[2]

In the United States in the mid-1950s, the research on the family business model slowly began to change. In the 1960s and 1970s, a group of scholars began to develop a theoretical framework that attempted to analyze the concept of the family business and rethink the limitations usually ascribed to it (Sharma *et al.*, 2007).

In parallel with the academic debates on family firms, some universities began the development of infrastructures related to family business education, and family business centres and professional associations were launched[3]. However, the critical role in energizing family business education in the earlier period was played by practitioners, namely family business owners and consultants, who used these places to attend to a growing demand: educational needs of family business stakeholders (Sharma *et al.*, 2007). These institutions and people enabled the transfer of new ideas about management (following the works on general management trends of Kipping and Engwall, 2002; Kipping, Usdiken and Puig, 2004) in the specific field of family business.

Moreover to help family firms sustain a complex organizational structure, develop growth strategies or market orientation, consultants and educational centres contributed to the dissemination of new management ideas and practices about family business that enabled the transformation of a family-based and personal style of management into a professional one (Puig & Fernandez, 2011). The central idea of Tagiuri and Davis (1982) of taking into consideration and carefully managing the three spheres that appear in a family firm (family, business, ownership) was broadly diffused by consultants and institutions. It is common to consider that these changes affected the family firm. Nevertheless, as the changes directly affect the mentality of the members of the families in business (they went to the educational centres, they hired consultants), our hypothesis is that these changes operate in all the institutions managed by the enterprising family. The relationship between the three spheres was now managed using Family Protocols or Family Constitutions, and shaping structures such as the Family Council or advisory boards. Consultants helped in the governance of an enterprising family, advising on succession planning, strategic planning processes or family business education.

The changes resulting from the new philosophy _or new "style of management"_ for managing family business assets are as follows:

KEY WORDS
Family business, family offices, families in business, management education

PALABRAS CLAVE
Empresa familiar, family offices, familias empresarias, educación en gestión

	FAMILY BUSINESS	FAMILY OFFICE
Objective	Manage the influence of the family in the business. To separate spheres of influence.	Link equity investment and management of the patrimony with the transmission of the family legacy.
Impact	Changes in governance structures, including the board of directors and family council, family assembly and family protocol.	Changes in governance structures. Legal and fiscal structures designed *ex profeso*. Changes in functions.

It was amid these changes that the family protocol (or family constitution) was created. Structures were designed specifically for family businesses, such as family assemblies and family councils. Outside consultants help manage all of the needs of the family, from issues of succession to the family's relationship with the company. According to the new philosophy, formulas for organizational architecture can be tailored by consultants to suit the family, enabling it to manage all of the institutions that belong to it in a rational manner by creating synergies between them and thus minimizing costs. In this new context, scholars emphasize not family businesses per se but rather the set of tools used to manage the family business.

Moreover, in the context of this shift, the family offices, which were businesses used by the family to manage investments, acquired a new dimension: They became an instrument within the new system designed for the corporate family. The term "family offices" is not homogeneous because each family office is tailor-made for each family. Moreover, these family offices are companies with different legal structures with different sizes and of different types, such as holding companies, holders of shares in the family business or simply investment vehicles. The family office is a generic phrase that refers to a structure that manages the needs of a family business, which each family adapts to its own activities, objectives and context.

At this point, the number of family offices rose extraordinarily; the institution became more and more popular for private wealth management. As an example of its success, in 1989, the Family Office Exchange was established, which is an advisory firm specializing in family offices. According to this institution, there are 3,850 family offices in the world; 3,166 are based in North America and the Caribbean, 35 are based in South and Central America, 575 are in the U.K. and Continental Europe, and 74 are in the rest of the world (Burri & Reymond, 2005).

While family offices continue to manage and preserve family patrimonies, there are three types in existence today:

1. The **single family office** is dedicated to a single family. Generally, at least $500 million in assets are necessary to profitably build a family office (Burri & Reymond, 2005). In terms of advantages, it can be adapted to the needs of the single family such that structure and its activities are designed according to the culture and values of the family business. Other strengths are confidentiality and its ability to reflect the image of the family. The most important disadvantages are the cost of a single family maintaining this structure and the need to hire and supervise specialized personnel.
2. The **multi-family office** is run by several families. It allows families with similar values and cultures to work together and create synergies, increasing their capacity for investment (Burri & Reymond, 2005). However, there are risks due to conflicts with the other families and conflicts of interest.
3. The **affiliated multi-family office** is a multi-family office affiliated with a financial institution, trust company or other institution. These are family offices that are operated by banks or specific entities that offer financial services in addition to legal, tax, legacy maintenance and family cohesion services. The advantages are clear; these offices provide a highly professional and experienced team of managers, reduce task monitoring and entail lower costs by not creating a dedicated structure. Disadvantages include depersonalization and the transfer of part or all of the assets to the office for management. Moreover, it does nothing to promote the public image of the family business, and sometimes, its investments do not reflect the culture or values of the family business (Burri & Reymond, 2005).

4. SINGLE FAMILY OFFICES

The new single family offices are designed to integrate financial aspects (*e.g.*, asset investments and tax issues) with legacy transmission and family cohesion (*e.g.*, training successors, promoting actions that support the family unit and engaging in philanthropic activities). The financial advantages are derived from its flexible structure, which entails few fixed costs and is ideal for diversifying and building the family business and for taking of advantage of business opportunities unrelated to the core business. In addition, the family business can support activities that promote family cohesion through the same structure.

What are they used for today, and how are they structured? It is not easy to answer this question because family offices are heterogeneous. Moreover, there are few studies on family offices based on primary sources due to difficulties in access related to confidentiality. One of the few available studies is that by Raphael Amit, Heinrich Liechtenstein, Julia Prats, Tood Millay and Laird P. Pendleton (2008). Their research includes data from large single-family offices with investment assets in excess of 100 million dollars. The sample includes 138 single-family offices based in different parts of the world, including the United States (42%), Europe (50%) and the rest of the world (7%, including Australia, Hong Kong, Japan, Malaysia, Philippines and Singapore). In their study, they had a response rate of 99%.

In that study, members of business families indicated the roles played by family offices as follows (Liechtenstein et al., 2008):[4]

- Maintain financial assets (100)
- Consolidate accounts (between 75 and 100)
- Maintain family unity (75)
- Promote family education (between 50 and 75)
- Engage in philanthropy (between 50 and 75)
- Serve as concierge (between 25 and 50)

Family offices also had committees dedicated to specific tasks, including:

- Investment committees: 43% (U.S.); 74% (Europe); 56% (rest of world)
- Education committees: 9% (U.S.); 12% (Europe); 22% (rest of world)
- Client Relationship committees: 2% (U.S.); 7% (Europe)
- SFO boards: 21% (U.S.); 52% (Europe); 56% (rest of world)
- Audit committees: 7% (U.S.); 30% (Europe); 11% (rest of world)

In all cases, family office managers were multidisciplinary teams of trusted top professionals, including economists, lawyers, psychologists and advisors specializing in family business. They came from specialized consulting firms and headhunters.

5. BESSEMER TRUST: THE LARGEST MULTI-FAMILY OFFICE IN THE UNITED STATES

> "People are not concerned simply with transferring financial assets. They're interested in how their wealth will affect the lives of their family"
> William H. Forsyth Jr., Senior Fiduciary Counsel of Bessemer Trust

To illustrate the evolution of international family offices in the 20th century, this section explains the case from the U.S., Bessemer Trust, which is the largest multifamily office in the United States. The origins of the Phipps family go back to the 19th century, when Henry Phipps founded with Andrew Carnegie the "Carnegie Steel Company", a steel producing company that became an important actor in North American industrialization. In 1907, Henry Phipps formed Bessemer Trust as his family office to manage the proceeds from his stake in the sale of Carnegie Steel. The company was a typical old family office. In 1911, Phipps formalized his legacy and wrote a letter to each of his five children expressing his wish to pass the family business on to them. In the letter, Phipps gave specific directions about the management of the family business and its core principles of private ownership and reinvestment of earnings: "my earnest desire that a prudent and conservative management of the Company shall be maintained and enforced and that each of you shall put proper restrictions upon your expenditures and lay aside a reasonable proportion of your income" (www.bessemertrust.com). The company remained a traditional family office managed by the proprietary family.

But in 1974, Bessemer Trust changed its purpose. The Phipps family decided to invite other like-minded families to use their family office capabilities and accumulated knowledge. This allowed the company to maintain the critical mass required to attract the best investment and wealth management professionals and to offer a complete array of services, among them legacy planning, tax strategies, philanthropic advice, financial services, or even concierge services. During the "new era for family business" (1960s onwards), the old family office was transformed into a modern family office. Nowadays, over 2,000 families participate in the firm and Bessemer Trust is the largest multi-family office in the United States.

6. CONCLUSIONS

Family offices are definitively not a new concept. At least since the industrialization period, this type of firm has been an important instrument for managing the wealth and continuity of families in business. Nevertheless, the concept behind the term is not the same as before. The formal or legal structure of the firm could be the same throughout the 20th century but the reality within these institutions is very different.

What are the main similarities between the old family offices and the new ones? Firstly, the main aims of the company (given by the family in business): to preserve the wealth and manage the legacy of the family. Secondly, "old" and "new" family offices were and are an instrument for maintaining and managing participation in the main business area (generally the traditional family firm) and in the diversified business areas. These formal participations, buying a stake in other companies, enabled and enable the families in business to develop "interlocking practices".

Following Mizruchi (1996), an interlocking occurs when a director affiliated with the board of directors of one company sits on the board of a different company. Studies on this subject usually analyze the influence of this link between businesses on the decisions and strategies of the companies, demonstrating that interlocking affects organizational learning, the imitation of practices among firms, and their position and legitimacy (Mintz and Schwartz, 1981; Davis and Mizruchi, 1999; Davis, Yoo and Baker, 2003; Salvaj, Ferraro and Tàpies, 2008). Company directors are involved in decision-making at the highest levels, and their experience and information acquired in one company can be transferred to another company. Interlockings are therefore potential vehicles for learning and disseminating knowledge (Powell, 1990; Uzzi, 1996; McDonald and Westphal, 2003; Salvaj, Ferraro and Tàpies, 2008), and they serve as tools to increase the social (or relational) capital of the family business (Lester and Cannella, 2006).

Thanks to family offices, families in business use interlockings in order to: Enrich their knowledge of company management in general, and in some sectors in specific; improve their social network, thus accumulating social capital; have a presence in the circles of information, a key factor in facilitating new investments in promising industries and having contact with new trends of management. All these issues make it easy for the family in business to consolidate itself in the elite of the national or international economic landscape, with or without a referential family-owned firm.

What are the main differences between the old family offices and the new ones? To sum up, the main difference between old family offices and modern ones is that in new family offices the conceptualization of the needs and the awareness of specificity are clearer. Experts from a wide range of fields design a haute couture dress for each particular case. In new family offices, financial needs are perfectly integrated with the family issues. In other words, we can talk about functions or even tasks in old family offices, that have been transformed into organizational structures, formal documents, systems and blue-prints in new family offices. A spontaneous and intuitive form of management has evolved into a structured, professional and even fashion-influenced style of management.

What have been the main agents in the transformation of family office management? The principal agents have been: Business Schools, consultants and, of course, members of families in business. The growth of infrastructure related to family business education and the development of family business centres and professional associations, have provided a base for communities focused on serving the educational needs of family business stakeholders (Sharma *et al.*, 2007). The role of consultant has also become significant for the dissemination of new management ideas throughout the world, for private as well as public organizations. By doing so, consultant, institutions and scholars encouraged a process of change in family firms that also affected other types of companies, i.e. family offices, defined as organizations to protect their particular family's investments and assets for both current and subsequent generations (following Liechtenstein *et al.*, 2008). Clearly, the family office was not a new concept, but the changes operated in the family business field allowed its transformation into professional organizations by adapting general management ideas, practices and fashions to the needs of its client or owners.

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NOTES

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2. This is the title of an article about family offices published in *Financial Times* in November 12, 1999, p. III.
3. As pointed out by Leif Merlin and Mattias Nordqvist (2007), we can observe increasing signs of “an institutionalization of the family business”.
4. The number represents the degree of importance on a scale of 0 to 100.