New Family Office Governance
Empirical Study of Swiss Family Offices

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The President:

Prof. Dr. Thomas Bieger
Abstract

‘Corporate Governance’ has become the ‘buzz word’ of recent times, whether in the press, in literature or in corporations’ public statements. The dissertation “New Family Office Governance” presents a holistic framework of governance especially adapted to the Family Office. “New Family Office Governance” relies on the targeted selection of board directors and their holistic monitoring of the Family Office, inspired by ‘New Corporate Governance’ developed by Hilb in 2004.

This framework aims to draw ‘governance’ out from theory and into practical application. Governance, and Family Office Governance, develops then from statement into formalized structure. This dissertation bases ‘Family Office Governance’ on the role of the board of directors. The significance of the board is explained through the theoretical part and supported by empirical studies.

Globally, the Family Office industry occupies a niche of the market, even though this sector has very substantial assets under management. For a better understanding of the special situation of this industry, the introductory part will clarify the impact of the family on the Family Office. Even though this study concentrates on Swiss Family Offices, the requirements, preoccupations and demands of different families all over the world are as in Switzerland simultaneously diverse and identical.
Zusammenfassung


Die Arbeit bezieht sich hauptsächlich auf Family Offices in der Schweiz, gleichwohl sind die Anforderungen, Herausforderungen und Erwartungen universal relevant. „New Corporate Governance“ fordert ein vielfältig zusammengesetztes Führungs- und Aufsichtsgremium, das in der Breite das gleiche Know How aufweist wie die Geschäftsleitung des Family Offices.

Das Aufsichtsgremium sollte die Aufgabenbereiche strategische Gestaltung, Leistungsevaluierung und Risikomanagement des Family Office beinhalten.

Acknowledgments

From March 2009 to August 2010 I had the opportunity to work as an internal doctoral student for Prof. Martin Hilb. During this period, I had the opportunity to learn and observe numerous corporate governance best practices for renowned companies in Switzerland. I would like to thank my supervisors, Prof. Martin Hilb and Prof. Roland Müller for their great teaching, encouragement and guidance.

I am indebted to Professor Martin Hilb for the inspiration of his concept of ‘New Corporate Governance’. He taught me that ideas and ideals can be worked and transformed into practical, effective structures which become applicable in everyday operations and for multiple facets of any enterprise.

I am very grateful to all the Family Offices that participated in the Family Office Governance Survey. Thank you!

All of my former and current colleagues have shown continued support. I also wish to thank my friends and colleagues from the Wharton Business School for their friendship and for sharing their professional expertise so generously during my time as a visiting scholar at the Sol. S. Snider Entrepreneurial Center.

I would also like to thank the Family Office networks that showed an interest in my research.

Last but not least, I would like to thank my family for their support, patience and understanding, as well as their valuable feedback and continuous encouragement.

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Zurich, October 1, 2012

Vanessa Faktor
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List of Abbreviations

AG  Aktiengesellschaft
Art.  Article
BRM  Business Review Meeting
BXS  Brussels Stock Exchange
CBF  The Belgian Banking and Finance Commission
CEO  Chief Executive Officer
CFO  Commercial Family Offices
CO  Swiss Code of Obligations
CISA  Collective Investment Schemes Act
E.g.  Exempli Gratia (Latin: For Example)
ERP  Enterprise Resource Planning
ESG  (Mission-based investing) environmental, social and corporate governance
ETI  Economically targeted investment
FM  Family Member
FO  Family Office
FOX  Family Office Exchange
FP  Financial Planning
F-PEC Scale  Family Power Experience Culture Scale
FT  Financial Times
GEC  Group Executive Meeting
GmbH  Gesellschaft mit beschränkter Haftung
HNWI  High Net Worth Individual
HNWF  High Net Worth Family
ICGN  International Corporate Governance Network
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ICT</td>
<td>Information and Communication Technologies</td>
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<tr>
<td>IDF</td>
<td>Innovation Development Process Foundation</td>
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<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<tr>
<td>IP</td>
<td>Internet Protocol</td>
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<td>ISA</td>
<td>International Standards of Auditing</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>IWMS</td>
<td>Institute for Wealth Management Standards</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicators</td>
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<tr>
<td>LLC</td>
<td>Limited Liability Company</td>
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<td>MFO</td>
<td>Multi Family Office</td>
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<td>MRL</td>
<td>Master Risk List</td>
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<td>MIS</td>
<td>Management Information System</td>
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<td>NACD</td>
<td>National Association of Corporate Directors</td>
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<td>NGO</td>
<td>Non-Profit Organization</td>
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<td>Nr.</td>
<td>Number</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>RAS</td>
<td>Remote Access Server</td>
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<tr>
<td>REIT</td>
<td>Real Estate Investment Trust</td>
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<tr>
<td>PB</td>
<td>Public Banking</td>
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<tr>
<td>PCAOB</td>
<td>Oxley Act and the guidelines of Public Company Accounting Oversight Board</td>
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<td>PWPS</td>
<td>Private Wealth Policy Statement</td>
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<tr>
<td>S.A.</td>
<td>Société Anonyme</td>
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<td>SFI</td>
<td>Swiss Family Index</td>
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<td>SFO</td>
<td>Single Family Office</td>
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<tr>
<td>SICAV</td>
<td>Société d’investissement à capital variable</td>
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<tr>
<td>SMART</td>
<td>Specific, Measurable, Attainable, Result-oriented, Time-bound</td>
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<td>SME</td>
<td>Small to Medium Enterprises</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>SRI</td>
<td>Social responsible (or responsive) investment</td>
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<td>SWX</td>
<td>Swiss Exchange</td>
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<tr>
<td>Swiss Code</td>
<td>Swiss Code of Best Practice for Corporate Governance</td>
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<tr>
<td>UHNWI</td>
<td>Ultra High Net Worth Individual</td>
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<td>UHNWF</td>
<td>Ultra High Net Worth Family</td>
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<tr>
<td>USD</td>
<td>US Dollar (currency)</td>
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<tr>
<td>URL</td>
<td>Unique Resource Locator</td>
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<tr>
<td>VOIP</td>
<td>Voice Over Internet Protocol</td>
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<td>Vol.</td>
<td>Volume</td>
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<td>VFO</td>
<td>Virtual Family Office</td>
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<td>VPN</td>
<td>Virtual Private Network</td>
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1 Introductory Section
Family Offices very much resemble small to medium family businesses in their stakeholder composition as well as their central focus on the family. Most Family Offices have evolved from existing or already sold family-held businesses, and they aim either to manage and preserve the now available assets, or to separate personal wealth from business assets.

“Familyness” introduced by Habbershon and Williams (1999) in (Mühlebach, 2009:65) describes the special resources and assets, financial as well as human which are developed by the strong interaction between the family and their business.

On the positive side of familyness lies a “long-term investment horizon, a strong entrepreneurial culture, and high flexibility in the decision-making” (Mühlebach, 2009:65).

Granovetter sees kinship as “one of several areas of social solidarity” resulting from a sense of affiliation or obligation (Granovetter, 2010).

Those familial ties are the center of “the radius of trust” (Fukuyama, 1995) in (Levi, 1998:80) which circles outwards to extended family and then close friends, confidants and trusted advisers, experts and professionals.


But trust, at least interpersonal trust, is “a fragile commodity” (Dasgupta, 1988:50). “The austere basis of trust… is just reliance” (Blackburn, 1998:34). This expectation of reliance is expressed in terms such as “trust fund”, trustees, fiduciary, and designates people or institutions to act in the best interest of another, thereby guarding this other person or interest which has been entrusted to them.

In the course of this dissertation, the difference between personal and professional trust will be analyzed, as well as the process and the advantage of building and conserving a culture of trust through good family governance adapted into Family Office governance. The guardian of Family Office governance, if not its institutor, will be the Family Office board of directors.

“Governance starts and ends with the board of directors” (George; 2002:22f in Hilb 2008:76).

As recently as ten years ago corporate governance was deemed only desirable for big, mostly stock-market quoted companies. Those big corporations, especially multi-
nationals, assembled numerous, even inflated boards, whose directors were more often than not ‘buddies’ or big shareholders. Whilst high levels of compensation, and prestige were frequent, real and reflective, responsible strategic direction or holistic management was less so - resulting in scandals and bankruptcies.

Now, post financial crisis, the lessons learned prove the importance of effective governance structures in a holistic concept. Family Office governance is adapted from Hilb’s “New Corporate Governance” (2008) which demands a carefully selected board as the instigator and steward of good governance.

Since Family Offices are comparable to small to medium family enterprises (SMEs), from which they often evolve, the question of ‘governance’ and a ‘board’ is often considered as ‘not yet necessary’ or costly.

But in Switzerland, after Basel II, family enterprises under capital constraints managed to obtain much more favorable credit conditions when they had formalized good governance structures; even more so when they had a board of directors (Hilb, Höppner, Leenen, & Mühlbach, 2009:4).

The advantages of a board for a Family Office are comparable to those for a family business. Like the family enterprise, the Family Office will gradually expand in complexity of operations and of family structures with a growing number of beneficiaries. This development will be mirrored in the number of directors and their necessary expertise for the Family Office board at different stages.

This dissertation endeavors to prove the advantage of a board of directors for a Family Office and proposes an integrated system of Family Office governance.

The term governance is synonymous with government. Etymologically, the term ‘governance’ can be traced back to the Greek word “kybernetes” which changed to “gubernator” in Latin and later become the English word “governor”. From this meaning of steering, directing, and ruling evolved the term governance (Müller, Lipp, & Plüss, 2007:592).

During the 1980s, political scientists also included public servants under the term governance. Rosenau (1995:13) explained: “global governance is conceived to include system of rule at all level of human activity – from the family to the international organization – in which the perusal of goals through the exercise of control has transnational repercussions” (Kjaer, 2010:3).

Hyden (1999:185) defined governance as “the stewardship of formal and informal political rules of the game… setting the rules for the exercise of power and setting
conflicts of such rules” (Kjaer, 2010:3). Today’s theories concerning economic governance stress the importance of the reciprocal interaction between state and economic agents “in networks that increase the efficiency and implementation of economic policy” (Kjaer, 2010:197).

These definitions emphasize the importance of a holistic framework of governance for a successful Family Office which sets out to define and structure responsibilities, obligations and benefits for the Family Office’s stakeholders. The governance principles should not be limited to strictly economical sectors such as asset allocation or risk management but should also extend to the communication and integration of all stakeholders, thereby defining interpersonal relationships, and thus creating consensus and alignment of interests.

The introductory part of the dissertation is split into two sections. The first section focuses on the research positioning, research gap, listing the research objective, and the definition of terms. The second section of the introduction is a comprehensive literature research review. Until today little has been published concerning family offices and theories of governance, so this dissertation endeavors to develop a system of corporate governance especially tailored to the requirements of family offices. ‘New Family Office Governance’ adopts the concept of ‘New Corporate Governance’ with its four dimensional framework (Hilb, 2008).

Corporate governance is a subject in academic literature, especially in the Anglo-American parts of the world. Theoreticians like Böckli (2001) saw corporate governance as the internal and external balance of power of an economic entity.

Even though some corporations profess to adhere to corporate governance guidelines, even more so after best-practices recommendations of the last decade, most of them consider the institution and daily practice of corporate governance as superfluous and merely an additional cost factor.

Furthermore, until Hilb designed the holistic concept of “New Corporate Governance” in 2004, practitioners had only diverse theories and recommendations but no complete system at their disposal.

‘Family Office Governance’ is inspired and adopted from “New Corporate Governance” based on the four dimensional Reversed KISS Principle.

The concept of ‘New Family Office Governance’ accentuates the board of directors’ fundamental role of strategically directing, integratively overseeing and holistically controlling the Family Office.
1.1 Research Positioning

Positioning the research includes the problem analysis, definitions and the theoretical and practical need for this study. The term Family Office (FO) will be used as an entity established by a family and serving this family for their wealth preservation and transmission as well as for other needs such as tax and legal, investment allocation, estate and succession planning, financial education and family philanthropy (Pompian, 2009:201).

The general theoretical section presents the specific theories and exigencies required to build the holistic and practical structures of the system of FO governance.

The specific empirical section analyzes, via questionnaire, Swiss based FOs as to their present configurations and their governance behavior - benchmarked by the satisfaction level expressed by their board of directors and overall by their FO.

Furthermore other field studies, revelatory studies, archival research, papers and lectures from different FO conventions, by invitation-only as well as from the banking sector, yielded information of interest.

The conferences provided the opportunity to meet different FO stakeholders from Europe, the United States and the rest of the world.

During informal talks, most of the principals or directors showed themselves to be more forthcoming and candid than the respondents to the questionnaire, notably about their concerns and areas of dissatisfaction with their respective FOs.

Due to the confidential nature of FOs, this reticence is understandable. But as off-the-record statements and numbers could not be used, the empirical results are based mainly on the survey of ‘New Family Office Governance’.

This research intends to provide FOs with a systematic but practical governance framework resulting in an integrated, strategically directed and monitored entity operating in a culture of trust and aligning all stakeholders’ diverse interests in consensus, directed and controlled by a targeted, selected board of directors.
1.2 Problem Analysis

FOs have not been the subject of a great deal of research. In recent years, new laws and regulations have caused FOs to be alert to the need for a complete and holistic system of governance. Apart from the hard laws, the soft laws of compliance, due to diligence, and transparency currently build the basis for a system of good governance, especially at board level.

One of the main causes prompting FOs to strive for corporate governance is the major loss of capital due to the global financial crisis, the loss of trust in the FO and the loss of trust in family members that are involved in daily operations of the entity. The loss of capital and lack of trust has resulted in rising conflict amongst stakeholders, leading not only to family feuds but also to substantial financial losses.

Throughout history, families have “featured significantly in the management of trade, successfully forming the backbone of many lucrative businesses” (Hilb, Höppner, Leenen, & Mühlebach, 2009:3). By the beginning of the Twentieth Century there were a substantial number of extremely wealthy families, the majority of them showing great entrepreneurial spirit. A concentration of them was found in Europe and America, but others were scattered across other parts of the world. As this segment of business grew, the need to manage these family businesses more efficiently emerged. The families’ main objectives were aimed at wealth preservation and successful transmission to successive generations. Out of those preoccupations a new segment of industry, offering financial management expertise, was developed: the Family Office.

In a rapidly changing world with fluctuating political and economical conditions, the family legacy should be considered as a contract binding all family members, but not engraved in stone, flexible enough to adapt to changing conditions while still honoring the original vision and family history. The vision of the principal constitutes a document on which the family legacy is founded. The family's specific goals and concerns, whether economic or philanthropic, guide the family's decisions and flavor the philosophy of the FO. “For the private wealth holder, appropriateness takes into account whether the investments are appropriate in terms of what the wealth is for” (Lowenhaupt & Trone, 2012:45).

In a purely economical driven enterprise, the horizon for setting goals and investment allocation has to be short term. In an FO, the outlook should be more long-term; nevertheless strategic goals should be realized and monitored in a short time frame,
allowing for correction of strategy, assessment, and re-evaluation. The concern with these choices distinguishes FOs from most public companies.

This vision does not only shape the legacy for the family, but its system of values will also guide every stakeholder of the FO. Apart from family-specific interests, be they cultural or philanthropic, the founder’s vision should translate into a strategy concerned with sustainability, environmental considerations and ethics, extending even to the choice of investments.

The ideas and values expressed in the family’s vision and legacy are part of the younger generations’ introduction to the FO concerns. As people around the globe become more informed about nefarious business practices such as child labor and other forms of abuse, such as the boundless exploitation of nature, they are more likely to use their purchasing power to boycott those companies. Apart from the economic and financial repercussions, the transmission of humanistic, ethical guidelines will tighten family unity and thus create consensus when it comes to decision-making processes in the FO.

The family legacy should not only aim for the preservation of wealth and its multi-generational transition but also transmit a sense of the accompanying obligation towards future generations, their family and their community. The family vision should endeavor to teach the prospective inheritors not only financial know-how and leadership, but also the responsibility of ownership. The children should adopt the shared family vision for future generations, thus becoming human assets. Strengthened by the vision and family legacy, their wealth will empower them.

The family vision should hold a set of values which all stakeholders of the FO, especially the officer and the board of directors, can adopt. Sharing a common legacy and its ethics will lead to better understanding and cooperation for all FO projects.

Ultra High Net Worth Individuals (UHNWI) with at least US $30 million (or equivalent) in assets, have created a new concept called the Family Office (FO) (Düzgünkaya, 2006:29). An FO can cost more than US $1 million a year to operate; therefore, most families with their own offices are ultra high net worth individuals with at least US $500 million (Frank, 2004). Due to the high operational cost, Merrill Lynch/Campden Research ‘European Single Family Office Survey’ (2009:7) found that a significant number of families considered it necessary to have more than 250

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1Interview with Corinna Traumüller 1.3.2010 at the Bau au Lac Zurich, Switzerland
million pounds in financial assets to operate an FO (Merrill Lynch and Campden Research Media, 2009:10).

Headlines such as: “Family-Office vom Sturm geschüttelt”2 (Neue Züricher Zeitung, 2009) portrayed the difficulty of many FOs, founded after 1990, when dealing with a first major crisis. High-net-worth families (HNWF) and ultra-high-net-worth families (UHNWF) experienced a shift in their corporate strategy. The article discussed the main goal of a growing number of FOs, namely, the search for options bestowing better protective mechanisms for future investments. Furthermore, the choice of partnerships with financial institutions or in-house staffing, such as employment of an officer, should not favor those who promise the highest return, but those with excellent reputations known for their discretion and professionalism.

Communication and information gathering are priorities for the FO. The challenge is to create a practical system that effectively and efficiently directs, manages and controls while aggregating in a timely manner the necessary information. In addition, this system has to be cost-effective.

Governance has been the topic of research within for-profit corporations, family businesses, nonprofits, and public sector entities. The dissertation ‘New Family Office Governance’ examines the issue of governance within FOs; specifically, the research investigates whether and how a board of directors in an FO adds value. With a well-structured, independent and expert board of directors in place, FOs can be run more successfully through the implementation of strategic direction, strategic management and strategic control. Such governance serves to establish a high amount of satisfaction for all stakeholders by alignment of their individual interests and agendas. The core challenge of UHNWI, to optimize the safe keeping of assets and provide ‘freedom of wealth’ for family members, can be adequately met by implementing a governance structure suitable to FOs, facilitating this delegation (Lowenhaupt, 2011:2).

______________________________

2 Translation: ‘Family Office shaken by the storm’
1.3 Research Objective

Globally, the FO sector, despite having substantial wealth under management, occupies only a small niche of the market. The Campden European Family Office Survey (2011) found that 80% of the FOs surveyed held more than €100 million under investment. According to Merrill Lynch and Campden Research Media (2009:10), the number of families with intergenerational wealth is growing by 12% per year. With this trend the FO industry is similarly expanding. Daniell (2008:117) found that the FO industry exceeds 10,000 entities world-wide.

The lack of an efficient governance system contributes to 20% of all unsuccessful wealth transitions in family businesses. Insufficient governance is one of the major threats families must guard against (Jenkins, 2010:9).

As the FO is similar in its stakeholder composition to a family business, it experiences the same challenges and follows thus the same objectives - the preservation and successful transmission of the family wealth. Therefore, the lack of an efficient governance system will lead, as with the family business, to an atrophy of wealth.

This research proposes a structured system of FO governance based on the FO’s board of directors. The study concentrates on FOs located in Switzerland but presumes the proposed governance framework to be adaptable globally, since previous research has revealed the same objectives and concerns for FOs in different locations disposing of a wide range of assets.

Considering this substantial amount of wealth and after the experiences of the global financial crisis, the theoretical as well as the practical need for an integrated system of governance in the FO sector seems evident.

FO governance accords the board of directors a crucial role in this system. Therefore, the theoretical as well as the empirical part of this dissertation researches the requirements and attributes of the board through all dimensions of the Reversed KISS Principle, situational, strategic, integrated and controlling. Special consideration is given to the board’s role in conflict resolution within a culture of trust.

The goal of this research is not limited to the theoretical design of the framework of ‘New Family Office Governance’ but offers a practical guideline for instituting the rule of governance in the daily FO business, allowing the FO to achieve transparency in its operations as well as in its intra-organizational relations. Moreover, an
independent expert board will then be empowered to fulfill its role of strategically directing and holistically monitoring and controlling the FO.

### 1.3.1 Theoretical need for Research

‘New Family Office Governance’ provides an insight to assessing the role of an entity established by one family, to serve that family, while determining its essential vision mission and goal. Over the course of time, stakeholders will have to be replaced and intra-organizational relationship may suffer. The theoretical part of this dissertation aims to research whether and how a board of directors can add value to the FO, by providing conflict resolution to create a positive intra-organizational relationship. Furthermore, the role of stewardship and direction of the board will be illustrated through the four dimensions of ‘New Family Office Governance’ framework, namely, situational, strategic, integrated and controlled.

The theoretical examination of governance mechanisms implemented by boards of directors in FOs is mindful of the similarity but also varieties of FOs. From a legal perspective of the nature of financial involvement, the initial legal structure of an FO is comparable to a hedge fund. The FO’s relationship involvement has seen similar conflict structures that family firms have experienced. However, FOs differ from institutions as they do not produce goods or services for the community. The sole purpose of the entity is to serve the family. Therefore, the family plans the vision, mission and purpose of the entity and designs their ownership strategy. The decision-making process follows this scheme. Another significant difference to other economic entities is the absolute autonomy of the FO who is only accountable- apart from legal and tax obligations - to the family beneficiaries. The theoretical benefit of this research lies in understanding the added governance value of a board of directors in such a distinct environment.

In particular, the theoretical section of this dissertation researches the role of a board of directors implementing governance mechanisms as mediation tools to decrease conflict in the FO and to create simultaneously a higher degree of satisfaction for all stakeholders. Also, the active involvement of the FO board inside the adopted governance framework, each step of the way from strategy to monitoring will be proved beneficial to the FO.
As no family is the same, no FO will have the same role. Therefore, it is absolutely necessary to understand the families’ history and values to establish specific parameters of governance, which can then be tailored individually to the needs of each family. There is no one-fits-all-model of governance to safeguard a family’s own legacy over generations.

Still the framework of FO governance based on the dimensions of the Reversed KISS Principle offers a viable, adaptable structure for diverse FOs with specific individual constellations and requirements.

a) Preservation of wealth

Families consider the preservation of wealth over multiple generations as their top priority, thus the main objective of an FO is to ensure the smooth transmission of wealth from one generation to the next. However, if the strategies offered jeopardize the harmony and happiness of the family dynamics, the main purpose of the FO has not been fulfilled.

“Only 15 percent of family-owned companies last past the second generation. And although over two-thirds of ultra-affluent family business owners want to keep the business in the family and have a succession plan, only about one-third are implementing their plans. Additionally, many plans do not include the necessary sophisticated estate and asset protection strategies that will ensure the smooth transition of wealth from generation to generation.”

Source: (The Merrill Lynch/Campden Research European Single Family Office Survey 2009)

Both FOs and family businesses share the same construct and the same concerns. A family business and an FO have the same composition of stakeholders; therefore, the low trans-generational success rate of family businesses is obviously a major FO concern for multi-generational wealth transition. Hence, insufficient corporate governance can jeopardize the satisfaction of the stakeholders and the success of an FO. “A successful family governance system in terms of structure for effective decision-making is essential for all families who wish to successfully transition wealth” (Jenkins, 2010:20-21).
Hughes (2004:3) addressed the threat that many families experienced; without being well-structured, perpetuating careful planning and stewardship, a hard-earned fortune can easily be dissipated within a generation or two. He furthermore identified the main question: “can a family successfully preserve its wealth for more than one hundred years or for at least four generations?” (Hughes, 2004:4). His proposed solution for the successful preservation of wealth is a system of representative governance whose practice is founded on a set of shared values that express and represent the family’s “differentness”. The family’s differentness lies in their goals and the representation that they strive to achieve. It is their personal footprint (Hughes, 2004:31).

To be more specific, he proposes the following practical solution: “…families should employ multiple quantitative and, more importantly, qualitative techniques to enable them, over a long period of time to make slightly more positive than negative decisions regarding the employment of their human, intellectual and financial capital” (Hughes, 2004:4).

An FO is a tool for achieving wealth preservation for more than a 100 years or at least four generations. However, the challenge is finding the right technique to determine the direction, management and control of the FO - which constitutes basically the layout for a successful foundation. Jenkins presents four key distinctions for a successful governance system: freedom, flexibility, horizontal perspective and history (Jenkins, 2010:20). In particular, freedom is understood as the freedom of choice: flexibility, the ability to adapt to change; horizontal perspective covers the reaffirmation of adherence, especially when the family grows larger; history refers to the legacy of the past, to adapt and to monitor the governance model to ensure its workability and incorporating it into the family’s history as an integral and inviolable aspect of the family’s long-term success (Jenkins, 2010:21).

Even with governance structures in place, it is extremely important that the governance model is efficient and effective to use. The families, as well as management and the board, need to understand and incorporate guidelines, rules and regulations to create the alignment of the individual needs and expectations of all stakeholders. Family governance has to be practiced by all stakeholders and not simply preached.
b) Cultural Differences

The successful transition of an FO through the generations is often dependent on the cultural aspect. Wharton Global Family Alliance Report; The Single Family Offices: Private Management in Family Context Report (2008) has identified a clear connection between FO governance, performance, and cultural differentiation (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2008:22). Statistics show that an average European FO has a higher presence of committees and more active family members, a more advanced use of documentation, and a more frequent communication policy than FOs in the Americas (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2008:25). A significant difference was found between high and low performers in relation to the frequency of communication between the FO and the family it serves.

Due to different cultural customs, the four components of the Reversed KISS Principle can be either liberal or conservative in their practical adaptation. An interesting observation reveals that FOs act in parallel with high and low context cultures. Networks, friends, family and clients are regarded in high contact cultures as values that money cannot buy. In Arab, Asian and Mediterranean countries, the family is of paramount importance and the use of networks is different than in a low context culture, where the separating distance between family and business is higher. For example, the custom of family dynamics and business overlap increases in a high context culture. For an Asian family, such as the well-known Hyundai car manufacturer, a family meeting at 6 am is a daily routine and of great significance. In these meetings, the decision-making and the function of the board of directors is adopted, and therefore the board is actually a puppet board, instituted solely for the stakeholders and the legal and financial aspects of the business. This is an informal, out-of-the-office working environment involving only the closest and most trusted family members. In contrast, within the German culture the boards of directors are formally structured hierarchical bodies.

Network governance is primarily defined as coordination characterized by informal social systems rather than by bureaucratic structures within formal contractual relationships (Jones, Hesterly, & Borgatti, 2004:159). This type of governance has been observed by numerous researchers; (Piore & Sabel, 1984), (Ring & Van De Ven, 1992), and (Snow, Miles, & Coleman, 1992).

This mostly unstructured kind of communication and decision-making process has been observed in family firms as well as in Family Offices. The advantage of such
informal procedure lies in its un-bureaucratic speed and cements close ties between family members working together. On the other hand, some stakeholders may feel excluded and resent or even try to block certain decisions.

Also, with an increasing number of family members and growing assets, those dinner table meetings and ‘kitchen cabinets’ can no longer guarantee good governance for communication, information aggregation, strategy and risk management.

Cultural differences can be further observed in the communication and involvement of different groups. For example, ages at which family members become involved in their FO can differ. In France or Germany, beneficiaries under the age of 18 do not necessarily develop a close-knit relationship with the officer. However, in Brazil teenage beneficiaries have already been in contact with their wards officer before their 18th birthday. The difference in the degree of integration is very important, as the relationship between the officer and the next generation needs to be established as early as possible in order to ensure involvement of the following generation. This is another important task for the FO board in the framework of ‘FO Governance’.

c) Insufficient Governance

The practitioners’ demand for conceptual research on FO governance has only recently been met by the academics. This may appear surprising considering the attention that FOs currently receive in acknowledged management literature. Nevertheless, it must be noted that until recently, FOs did not wish to be in the public eye. Due to the importance of confidentiality towards the family and the wealth an FO carries, it was considered in the best interest of the family to keep the FO operations and affairs as private as possible. This attitude is still widespread. Most FOs have gained media attention due to scandals uncovered in the aftermath of the financial crisis. This has led to an agreement in the academic arena that the necessity for governance in FOs is obvious (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2008).

Governance is the basis an FO can be soundly built upon. Wharton Global Family Alliance Report; The Single Family Offices: Private Management in Family Context Report (2008): “FOs need explicit governance practices that hold the professionals accountable, such as pre-determined benchmarks, regular evaluations based on set criteria and clear reporting of outcomes” (Amit, Liechtenstein, Prats, Pendleton, &
Millay, 2008). According to Shepperd (2009), accountability plus objectivity contribute to building trust, a key underlying reason to have an FO. Members of the extended family often participate in FO governance in some way, either informally or through established governance committees (Shepperd, 2009).

This suggests that there is a lack of conceptual thinking about FO governance. LaNeve (2006) outlined that it is necessary “….to build the right type of governance model going in, and it should establish proper management relationship at all levels, that each side understand the perspective, the culture, and the growth strategy of the other as it is not just about cutting cost anymore”.

As FOs incorporate distinctive values while creating their governance structures, Hilb (2008) underlines the importance of following principles contributing to (the FO’s) success in operations as well as in interpersonal relations.

- To grow in a sustainable and healthy way
- To finance this growth with its own operation earnings
- To achieve quality and cost leadership at an international level through constant improvement and innovation
- To grow both as “people” and as an “organization”
- To be vigilant, customer oriented and of prompt reaction in order to be able to recognize opportunity at due time and profit accordingly
- To carefully evaluate the risk
- To be ethical
- To be aware of the family and their needs and desires
- To control the level of involvement

Source: (Hilb, 2008)

In adopting those principles FOs will achieve internal strength and good governance create transparency and consensus, thus reducing the risk of internal challenges, whilst protecting and maximizing their assets in a sustainable, ethical manner.
1.3.2 Practical need for Research

The convergence challenge addressed in the Global Survey “The Integration of Governance, Risk and Compliance”, a KPMG International Report (2010) predicted that an overall trend of increasing cost will arise for many companies in a wide field of industries when implementing new forms of governance mechanisms to comply with regulatory compliance set internally or externally (Engels & Evans, 2010).

Moreover, the benefit of establishing such highly cost-related governance mechanisms is not clear. It has been recognized that as business interests become more complex and expand globally, governance mechanisms are necessary. However, with growing annual operational expenses, professionals are unable to put a precise figure on such a layout. Still, entities across industries are challenged with an increasing amount of complexity, coupled with an increased risk of failure.

Therefore this dissertation proposes the holistic framework of ‘New Family Office Governance’ which unites and integrates governance mechanisms from the situational, strategic, integrated and controlling dimension.

The initial additional operative costs will be quickly amortized, and finally the institution of FO governance, avoiding the convergence challenge, will result in a more efficient and profitable FO.

The reasons for creating an FO vary according to the specific family’s source of wealth, history, location and family structure. Still, across the globe the major considerations remain the same - preservation and successful transmission of the family’s wealth to the younger generations, confidentiality and exclusivity.

According to research on the family office industry, apart from the desire for confidentiality, the goal of wealth preservation leads to the establishment of an FO for the following three most cited reasons:

- to obtain a professional wealth management operation for the family
- to manage the proceeds from the sale of the family business or businesses
- to separate family and commercial affairs in order to create confidentiality

Source: (Merrill Lynch and Campden Research Media, 2009:11). Figure 1: Rationale for setting up an FO presents a more detailed list of reasons to establish an FO.
Usually, an FO evolves from its original functions in direct response to market conditions and the specific needs of family members. Recent history has demonstrated the need for good corporate governance, which means good reporting styles, more control and therefore more security (Morrison, 2009). The sub-prime crisis and market meltdowns in 2007-2009 have left UHNWIs seeking different alternatives to manage their fortune (Villalonga, 2010). In response, new FOs have emerged across the globe. Additional scandals such as the Ponzi scheme by Madoff, whereby many institutions, organizations and entities lost substantial wealth, have left FOs searching for governance mechanisms that will achieve transparency and structure in the direction, management and control of their entity. The practical need for research on FOs...
governance is justified by the intent to create solid enough protection mechanisms to defend FOs against mismanagement, fraud and theft. However, it is likewise important that the governance structures of the FO allow enough flexibility to meet the individual needs of the family members. As FOs have a multigenerational time horizon their governance needs to adapt to the evolution of economic, political and social needs through time.

This dissertation researches the advantage of a board of directors for an FO on the precept of FO governance. This board will not only be directing and supervising FO operations in strategy over auditing and risk control, but will also implement and safeguard the governance mechanisms crucial not only for financial success but also for the FO’s stakeholders' consensus and alignment through structured communication and conflict resolution in a culture of trust.

a) Freedom of wealth

“Providing family members with freedom to live their lives and to self-actualize without feeling the burdens of wealth is the most important benefit that a Single-Family Office can deliver.”

Source: Lowenhaupt, (2011:2)

Drucker (1981) cautions: “If you can’t measure it, you can’t manage it”. Transparency is a key determinant of harmony and happiness in the family: since family members vary in the level of control they have over decision-making in the FO, conflict is likely to arise, if the process is not transparent. Transparency enables family members and beneficiaries to understand why specific decisions were made and consequently decreases intra-organizational relationship conflicts.

If the governance structure of the FO fails to accomplish its three key goals; obtain a professional wealth management operation for the family, manage the proceeds from the sale of the family business, and separate the family and commercial affairs to create confidentiality, then the FO runs significant risk of seeing its financial performance suffer as resources are consumed in managing conflict between family members or other parties within the FO. Hughes (2007) argues that preserving wealth over multiple generations is a question of human behavior choice, not the best estate
plan or investment managers. In operating FOs, the emphasis on quantitative and qualitative analysis is important to preserve wealth over multiple generations whilst actively implementing governance mechanisms into the FO practice.

**b) Successful transfer of Wealth**

Issues that undermine successful transfer of wealth are less due to faulty accounting, legal or financial advisory planning, or neglected estate planning (which may lead to lack of trust and communication), than to the lack of preparation of the heirs. According to the Williams Group, only 3% of failed wealth transfer is accounted for by wrong advice. The breakdown of trust and communications within the family unit and the failure to prepare heirs for their responsibilities leads to 85% of all failures of wealth transfer (Williams & Preisser, 2003:49). The William Group researched 1000 estates from 1975 to 2001. During that period, 700 of them failed. 420 (60%) failed because of a breakdown of trust and communication within the family. 175 (25%) estates failed because the heirs were not adequately prepared for the responsibility. Another 105 estates out of the sample group failed for other reasons, whereas only 20 out of the 105 estates failed because of professional errors and oversights, which amount to less than 3% of failures because of professional negligence (Williams & Preisser, 2003:49).

The creation of an FO offers the optimal platform for estate transition by establishing a professionally efficient unit, provided the FO adopts holistic governance. Especially effective are FOs which prepare their successors for their responsibilities, and in addition continue to help when they need assistance because of age or lack of knowledge. Nevertheless, in order to maintain trust and communication amongst the stakeholders and to achieve a highly-structured, organized FO inside a governance framework, the board of directors becomes key to the overall success of the FO.
c) Fraud

“Trust is like air, always necessary, but the necessary only becomes apparent when its gone”

Source: (Pirson cit. Hilb, 2009:91)

More critical than the above-mentioned challenges is the need to create a support mechanism to foster security. The Ponzi scheme operated by Bernard Madoff caused devastation in the financial world and led the FO sector to introduce further safeguards such as monitoring structures and diversification in their investments and asset classes as well as in their managers and advisers (Lowenhaupt, 2009); (Fruitman, 2009); (Bonacoorso, 2009). The threat of giant frauds and irresponsible or negligent behavior has left FOs feeling vulnerable, resulting in what we see nowadays: a distrustful environment. Yellowlees, (2009) sees a significant problem when trust is no longer experienced in the relationships of the FO stakeholders, the core purpose of the office is no longer fulfilled and its sustainability is questionable. The importance of reputation is also outlined by Warren Buffet after the scandal of 1991 when he took over as chairman at Salomon Brothers: “…lose money for the firm and I will be understanding; lose a shred of reputation for the firm and I will be ruthless”.

Therefore ‘New Family Office Governance’ underlines the importance of formalized risk policies defining each office’s individual risk tolerance and the liquidity needs of its beneficiaries.

Furthermore, regular internal auditing as well as unbiased external auditing - overseen by the board of directors, will with due diligence and good governance facilitate monitoring and risk management.
d) Governance through leadership

FOs are mirror images of the families they serve. As family dynamics and structures change, the same phenomena are visible in FOs. The FO is the helping hand that high net worth individuals (HNWIs) and ultra-high net worth individuals (UHNWIs) use to tackle current and future possible difficulties and furthermore through whom they seek to guarantee those successive generations will be able to maintain their wealth. When conflicts within the family occur, these dynamics will also be reflected in the FO. For example, if the family does not have a well-structured succession plan the likelihood of understanding the hierarchical decision power will not be clear; suggesting that personal and task conflict will increase.

The basis for working well together is anchored in the establishment of trust, which engenders a free flow of information and transparency among the chairman and the directors, shifting down through all the levels of personnel (Duncan & Wates, 2009). Research has concluded that a working environment needs to have transformational leaders. Leaders who, according to Tichy and Devanna (1986:271), “describe themselves as change agents” are seen by Hilb (2008:66) as “glocal and transformation-oriented”.

An FO team of officer and board with those qualities will also be transformation- and future-oriented by establishing and working inside the FO governance framework, adhering to ethical and moral values in a culture of trust.

The characteristics of a transformational leader are: “they are courageous; they believe in people; they are life-long-learners; they have the ability to deal with complexity, ambiguity and uncertainty” (Hilb, 2008:35).

Without a clear separation of power amongst the stakeholders, friction can develop and the intra-organizational relationship will suffer. Those entities with workable, flexible and family-wide acceptance of governance attributes are more likely to successfully navigate cross-generational transitions than those with no decision-making process in place (Jenkins, 2010:9).
1.4 Research Gap

Despite recent literature and best-practice recommendations regarding governance, FOs need a theoretical concept with practical application for the FO industry and its specific requirements. Whereas different academics have researched, even practiced, diverse governance mechanisms, ‘New Family Office Governance’ proposes a holistic and ‘user-friendly’ governance concept.

Hauser, director of Private Wealth Advisory Stanford Group (Suisse) AG, Zurich, Switzerland, published four predictions in Trust and Estates, concerning family offices and specifically Single Family Offices. Her predictions are as following:

“Global increase” of the numbers of family offices in direct relation to the worldwide increase of families’ wealth

“Déjà vu” that the commercial multi-family office model will be abandoned in favor of Single Family Offices, serving only one specific family

“Location, location, location” denotes the global search of Single Family Offices, examining diverse jurisdictions before settling on one- or more locations for their offices

“Hands across the water” translates into international alliances between Single Family Offices for investments and subsequently for exchanging information

Source: Hauser (2007)

Disparate governance guidelines are not enough. FOs need a complete and integral structure of governance, a holistic concept, universally applicable, that can be put into instant practice and create net-value to the entity. Such a governance framework should protect the three major objectives each FO values: preservation and transmission of wealth, confidentiality and catering to the needs of the individual.

Haas (2006) focuses on setting a perimeter for the definition of an FO in Switzerland, by examining the current models seen in practice. She further outlines the strengths, weaknesses, opportunities and threats facing the current FO industry and suggests alternative business solutions for UHNWIs such as the use of alternative networks for family members, the unification of different institutions in cooperation or strategic alliance, or the implementation of virtual Family Offices.
Prinz (2006) also regrets the scientific and literary disinterest in the FO sector where he sees a definite growth potential, especially in Europe. By studying different FO models on the base of the two variables of amount as well as complexity of wealth and also of family structure, he aims to propose the optimal FO model for each individual prospective FO client. But Prinz (2006) concludes that the SFO remains only suitable and affordable for very substantial and complex fortunes.

Lebel (2010) examined the lessons learnt from the global financial crisis for FO governance. His comparative analysis of four Multi Family Offices (MFOs) and their governance systems also relies on personal interviews he conducted with various experts in the field, and the reactions of the previously presented MFOs.

This dissertation proposes to fill the research gap by analyzing FOs’ current governance practices and suggesting purposely structured processes according to the concept of ‘New Family Office Governance’. This governance concept sees the board of directors as crucial and central throughout all the dimensions of the Reversed KISS Principle, from the situational, strategic and integrated to the controlling. To enable FOs to meet their primary goal of wealth preservation and transmission, FO governance is based primarily on the board’s contribution. The directors’ role of strategic direction and holistic control will be proved essential for good governance, focusing also on positive, integrated relationship building between all FO stakeholders.

Although the survey focuses on Swiss FOs, the model of FO governance underlining the contribution of the board of directors is universally adaptable to any FO intent on good governance as their foundation and furthermore reaches into all dimensions of the FO’s organization.

1.5 Research Approach

The scientific research approach of this dissertation intends to propose a theoretical and empirical governance framework for FOs leading to a positive intra-organizational relationship in the FO, with a board which strategically directs monitors and controls the FO.

The traditional stakeholders involved are owners (principal), families (principal and beneficiaries) and managers (officer). The ‘new’ governance model will include the role and responsibilities of the board of directors in creating an environment of consensus for stakeholders’ aligning stakeholder personal goals with the goals and
objectives of the FO. This can be reached with governance mechanisms assembled into a holistic governance framework. The board of directors, if selected carefully, may have the power and the expertise to implement these governance mechanisms. This dissertation analyzes empirically the mechanisms of governance carried out by a survey completed by the principals or directors of a board.

‘New Family Office Governance’ endeavors to demonstrate the need and the reward of a holistically integrated governance structure, supported - if not implemented - and supervised by the FO’s board of directors. Furthermore, it will be made evident that governance needs to extend to all spheres and all stakeholders of an FO in order to be integral and holistic.

The establishment and empowerment of the board of directors will demonstrate that a competitive advantage can be gained for the specific goals and objectives of the individual stakeholders, as well as ‘New Family Office Governance’ outlines how a board of directors can implement mediation tools to establish consensus among stakeholders, and direct and monitor the FO integratively. Figure 2 illustrates the four stakeholders in four circles converging to symbolize the creation of a common vision mission, and goal realized through agreed upon strategy and control mechanisms.

**Stakeholders’ alignment of goals through ‘New Family Office Governance’**

![Figure 2: Stakeholders' alignment of goals through 'New Family Office Governance'](source: Author)
1.5.1 Procedure

The dissertation is structured into five main parts. The introductory section (‘Die Vorstudie’) was written in Switzerland at the University of St. Gallen.

The second part includes the fundamentals of the research and a general theoretical section, which was written while on a scholar exchange at the Wharton School of the University of Pennsylvania, under the supervision of the Sol. S. Snider Entrepreneurial School.

The third part of the dissertation includes collecting primary data in order to test the theories. This stage of the dissertation will be conducted in the US and in Switzerland. The goal is to survey a large proportion of FOs with the same characteristics in order to identify best practices in the industry. Switzerland provides an extraordinary research location due to its political and economic stability, the strong banking sector and the diversity of three different official languages. Those factors contribute obviously to the decision of numerous international UHNWIs to establish an FO or place a segment, such as the financial office of the FO, in Switzerland. Moreover, Switzerland also disposes of strong corporate governance structures such as the OECD, Swiss Code of Best Practice for Corporate Governance and the Swiss Code of Obligations.

The fourth part concentrates on the analysis of the data collected. Qualitative research data was collected as a result of interviews with FOs located in Switzerland. In those interviews it became clear that the previously noted legal structures of FOs did and still do not apply to all respondents. Most FOs are determined by where the family lives or what businesses the family are involved in. For example, an American family with a financial office of the FO located in Switzerland can still be legally defined as an LLC. On the other hand, a Swiss family with an asset management office of the FO located in Singapore may be legally structured as an AG.

The fifth section and final part of the dissertation outlines the need for further research based on findings and results. In order to provide a visual overview of the research procedure, figure 3; - Procedure of the Dissertation - illustrates and provides a visual overview of the research procedure in detail.
Procedure of the Dissertation

1.5.2 Time Line

The first part of the Dissertation, known as “Vorstudie”\(^3\) was submitted in June 2010. Initially, a research exchange was planned from September to December 2010 at the Wharton Business School, University of Pennsylvania, USA. Due to a unique opportunity, the research exchange was prolonged for an additional semester (January-May, 2011) so when comparing the time line established in the ‘Vorstudie’, one will notice a readjustment to the established time line. Moreover, during the exchange semester the general theoretical part of the dissertation was developed, supported by the intensive research that has already been done in the field of SFOs, at the Wharton School of the University of Pennsylvania.

\(^3\) Vorstudie can be translated as pilot study. It serves as an official proposal of the doctorate study and needs to be approved by the advisors and the University.
The specific empirical part of the dissertation will test theories developed in the general theoretical part. Through the responses and information gained at conventions and through other field studies, the current situation of FOs will be analyzed, concentrating on the role of the board of directors. Furthermore, the research will propose practical solutions for new governance in the FO sector. From May to December 2011; 200 surveys were distributed to FOs located in Switzerland. Due to the high profile category of FO stakeholders the response rate expected was comparable to surveying CEOs from publicly traded companies, considering a 10% rate of response a significant sample. The goal was to aim for a slightly higher response rate, creating a sample of 50 FOs.

The concluding part of the dissertation analyzes the different findings collected by the survey and other research. It is those findings that will make it possible to outline further research suggestions while creating an insightful perspective for academics and the industry.

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The Timeline for the Dissertation

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<tr>
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General Theoretical Section
Research Conducted at the Wharton School of the University of Pennsylvania

Concluding Section & Further Research

Figure 4: The Timeline for the Dissertation

Source: Author
1.6 Definition of terms

This section defines and examines the most important terms used in the dissertation. Hilb’s concept of ‘New Corporate Governance’ (2004) and the four-dimensional Reversed KISS Principle are adopted and adapted to ‘New Family Office Governance’. Therefore, this chapter outlines the terms on which ‘New Family Office Governance’ is based.

1.6.1 Definition of “New Corporate Governance” in relation to FO

The world of corporate governance has changed radically over recent decades. Pre-1980 corporate governance was articulated as ‘theory of managerial capitalism’ with the main purpose of maximizing stakes, growth, and size (Coffee, 2004:334). The term ‘Corporate Governance’ is mentioned first in 1976 in Courtney C. Brown’s “Putting the Corporate Board to Work” and describes the system of directing and controlling entities and the “conundrum between power and control” in complex organizations (Müller, Lipp, & Plüss, 2007:592-593). In the 1990s, corporate governance was identified by two principal forces: the takeover movement and the growing use of equity compensation (Coffee, 2004). Monks and Minow (1995) defined corporate governance in the broadest sense as “the relationship among various participants in determining the direction and performance of corporations” (Monks & Minow, 1995). It covers all organizational and structural aspects of companies in order to protect the position of shareholders and their rights.

Since then, the term and the interpretation of corporate governance has been defined, after long international legal discussions, into 120 different codes of corporate governance worldwide. Considering the different national legislations and the different politico-economical developments, the similarity of the evolved solutions is unexpected, though the importance accorded to specific problems varies, so does the determination of legal and voluntary regulations (Müller, Lipp, & Plüss, 2007:597). Corporate governance today focuses on the safeguard incentive for shareholders
investing in equity capital. Some of the safeguard incentives lead to the introduction of gatekeepers, seen as intermediaries who provide verification and certification services for a modest fee (Coffee, 2004:336-337).

The Cadbury Report defines corporate governance as: “…properly constituted boards, separation of the functions of chairman of chief executive, audit committees, vigilant shareholders and financial reporting and auditing systems which provide full and timely disclosure” “[a] system by which companies are directed and controlled. The Board of directors are responsible for the governance of their companies” (The Cadbury Report, 2003 par. 2.5); (Cadbury, 1992 par. 7.2).

Corporate governance represents principles and rules that function to optimize shareholder value (Hofstetter, 2001:7). By structuring obligations and responsibilities of different stakeholders in a governance system transparency within the entity is guaranteed. Various Corporate Governance Reports focus on the increasing importance of the board of directors’ role. The Dual Code of the Belgian Brussels Stock Exchange (BXS) and the Belgian Banking and Finance Commission (CBF) include the role of the board of directors in the definition of corporate governance as: “… [a] set of rules applicable to the management and control of a company” (Gregory, 2002:12). Specifically the dual code of the BXS and CBF emphasizes: “it is the duty of the board of directors to manage the company’s affairs exclusively in the interests of the company and all its shareholders, within the framework of the laws, regulations and contentions under which the company operates” (Gregory 2002:12).

OECD Principles V/Millstein Report identifies the mission of board of directors as follows:

“The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders…. Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands…. [It also] implement[s] systems designed to ensure that the corporation obeys applicable laws, including tax, competition, labor, environmental, equal opportunity, health and safety laws. In addition, boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities. Observance of environmental and social standards is relevant in this context.”
The ICGN Statement/Global Voting Principles building on the OECD Principles postulates: “[The] board is expected to manage successfully its relationships with other stakeholders, i.e., those with a legitimate interest in the operation of the business, such as employees, customers, suppliers, creditors, and the communities in which the company operates… The ICGN is of the view that the board should be accountable to shareholders and responsible for managing successful and productive relationships with the corporation’s stakeholders.”

Hilb identifies governance as: “…a system by which companies are strategically directed, integratively managed and holistically controlled in an entrepreneurial and ethical way and in a manner appropriate to each particular context” (Hilb, 2008:9). This holistic integrated corporate governance framework, called ‘New Corporate Governance’, which is based on the Reversed KISS Principle; establishes a guideline to set the direction and control of the entity.

**Reversed KISS Principle⁴**

Keep it **S**ituational (Situationsbezogen)

Keep it **S**trategic (Strategisch)

Keep it **I**ntegrated (Integriert)

Keep it **C**ontrolled (Kontrolliert)

**Figure 5: Reversed KISS Principle**

Source: (Hilb, 2008:12-13)

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⁴ The Reversed KISS Principle is adopted from the German language where Control is spelled with a K (Kontrolle)
**a) First Dimension: Keep it Situational**

‘Keep it Situational’ is the first dimension of the Reversed KISS Principle. It emphasizes the need to tailor governance to the specific external and internal context of the entity. In order to identify the appropriate governance framework enabling a holistically managed FO, to increasing the degree of satisfaction amongst the stakeholders, it is important to understand the specific internal context and its influence on the stakeholders of the entity, and their culture.

Prior to the establishment of an FO, a principal only has the opportunity to consult external experts. With ever growing complexity in the financial world, the need for structures, rules and regulations of governance has become increasingly necessary. The Reversed KISS Principle recognizes that there is no ‘one-size fits-all’ corporate governance approach, therefore an analysis of external and internal context will be included (Hilb, 2009:69).

**b) Second Dimension: Keep it Strategic**

‘Keep it strategic’ is the second dimension of the Reversed KISS Principle. This dimension distinguishes four main components of corporate governance; which are specific to the board of directors:

- A strategically targeted composition of the board team
- A constructive and open-minded board culture
- An efficient board structure based on its networking
- Shareholder and stakeholder oriented board measures of success

Source: (Hilb, 2009:75)

In the framework ‘New Corporate Governance’, the four components are integrated in a process resulting in integrated board management. This kind of board will pursue strategy from design and ratification to monitoring and controlling its implementation. Measurement tools are established for the evaluation of the performance of the
entities’ leadership (Hilb, 2008:101-102). Diversity and complementary expertise on the board will confer an added strategic advantage to the entity.

c) Third Dimension: Keep it Integrated

‘Keep it integrated’ is the third dimension of the Reversed KISS Principle. This part of ‘New Corporate Governance’ incorporates an integrated board management concept with increased attention on strategic professionalism in the selection, remuneration and development of board members as well as on the enhanced performance of the board team, coupled with sufficient strategic control and risk management by the board (Hilb, 2008:109).

This dimension will illustrate, based on Hilb (2008:110), the concept that enables the board to create exemplary board teams, constructive, open board culture and effective board structures, as well as introduce stakeholder-oriented board success standards for an FO. Composition, review and feedback as well as compensation of the board members will demonstrate the development and integration of the board and the FO by using the advantage of diversity.

The goal of this dimension is to increase positive alignment with the family’s and the FO’s vision, mission and objectives. The involvement of all stakeholders for the process of implementation, development and evaluation is crucial. If the stakeholders do not follow the same objectives there is no alignment of goals and, as a result, the entire operation can be negatively affected.

d) Fourth Dimension: Keep it Controlled

Keep it controlled’ is the fourth dimension of the Reversed KISS Principle, and identifies the board of directors as having a holistic monitoring function from the perspective of all stakeholders.

This overseeing function of the board includes auditing, risk management, communication and evaluation. Entities that conduct an annual audit of all significant
processes, both internally and externally, including board performance, will be more effective and efficient versus entities that do not incorporate these mechanisms.

Desai, Roberts, & Srivastava (2010:537) explain that an increased trust in the internal audit function by regulators, corporate governance actors and financial market participants results in the need to better understand such audit standards. Furthermore, Desai, Roberts, & Srivastava, (2010) emphasize that reports such as the Sarbanes-Oxley act and the guidelines of the Public Company Accounting Oversight Board (PCAOB), stress that external auditors increasingly rely on the work of the internal auditing, with the goal of evaluating internal controls. External audit functions have the advantage of conferring a non-bias control mechanism. As a controlling mechanism, it will be tested whether an FO has implemented internal and external audits and to what extent those affect overall satisfaction.

In ‘New Corporate Governance’, Hilb (2008) proposes that organizations whose boards engage in comprehensive risk analysis, at least on an annual basis, including identifying risks, assessing their potential impacts on the organization, and outlining risk mitigation strategies, are more effective organizations.

1.6.2 Definition of New Family Office Governance

“The family office is to support the enhancement of the family’s authentic wealth—the intellectual, human, and social capacities of each family member—no more and no less. When the family understands the importance of owning the family governance segment, the ability of all other family entities to serve the family in a powerful way naturally line up.”

Source: Gray (2009:1)

The FO is a concept developed for UHNWIs to protect and increase their private assets for both current and subsequent generations. Most affluent families draw a clear separation between the family business and the FO, meaning that the FO usually manages private family assets. The OECD Principles (2009) further suggest: “one key element in improving economic efficiency is corporate governance, which involves a set of relationships between a company’s management and its board, its principle and its beneficiaries, through which the objectives of the company are set, and the means
of attaining those objectives and monitoring performance are determined”. Hughes (2004) stated that preserving wealth over multiple generations is primarily a question of human behavior choice. It is also necessary to exceed the traditional elements of wealth planning by concentrating on a family governance system that can regulate the structure for the collective mission of the FO.

Table 1: Extension to ‘New’ Family Office Governance, outlines the various trends and proposes the relevant governance mechanisms based on the four dimensional ‘Reversed KISS Principle.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Current FO Governance</th>
<th>New FO Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Situational Implementation</td>
<td>Each FO is structured differently</td>
<td>Implementation appropriate to all FOs</td>
</tr>
<tr>
<td>Keep it situational</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic direction</td>
<td>No clear role for strategic direction among</td>
<td>Board of directors has central function of strategic direction</td>
</tr>
<tr>
<td>Keep it strategic</td>
<td>Stakeholders</td>
<td></td>
</tr>
<tr>
<td>Integrated Board of directors</td>
<td>No clear role for board of directors</td>
<td>Identification of diverse roles and functions of directors of the board, integrated with other stakeholders</td>
</tr>
<tr>
<td>Keep it integrated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holistic monitoring</td>
<td>Monitoring function divided amongst Stakeholders</td>
<td>Board of directors responsible for the monitoring process</td>
</tr>
<tr>
<td>Keep it controlled</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Extension to 'New' Family Office Governance

Source: Author based on (Hilb, 2008:11)
1.7 Basic Assumptions

According to Gray (2009): “…effective family governance sets boundaries, establishes avenues of communication, and builds a decision-making process needed to equip families with the clarity and connectedness to avoid falling into the cliché of going from shirtsleeves to shirtsleeves in three generations.” According to Pompian, (2009), many principals of the first generation, the creators of the wealth, set up an FO not only to preserve the family wealth but also to create a legacy for forthcoming generations and to avoid the loss of the family’s assets (Pompian, 2009:44).

Moreover, Teixeiran (2008) focuses on the role of invisible governance for the business-owning family. In the article: “Focusing on Families in Business”, he explains the importance of a managing board, emphasizing the advantage of adopting frameworks and mechanisms of ownership governance to ensure that family partners who control the capital and wealth both participate and are represented in the decision-making process. This underlines the necessity of creating applicable and well established governance adaptations in the context of FOs.

In attempting to measure the performance of FOs, severely constrained due to FOs deeply private organizations, and are not subject to any significant transparency requirements. Hence, obtaining access to financial data that would establish a link between organizational characteristics and financial performance is essentially impossible. As a proxy to financial performance, this research will survey stakeholders of FOs to establish what impact the board of directors has on an FO, benchmarked by the satisfaction level.
1.8 Basic Limitations

The basic limitation of the dissertation “New Family Office Governance” derives from the FO’s basic characteristic of privacy in order to preserve confidentiality.

Since those attributes are the very reason for establishing a Family Office, it follows that there are no financial data available, nor information on compensation strategy and asset allocation, dividend pay-outs or specific conflict situations. Moreover in many cases FO principals do not even care to acknowledge their position or their Family Office to outsiders.

Another research limitation constitutes the absolute impossibility of empirical observation, as neither family conferences nor board meetings ever admit outsiders.

Even data and other information assembled through the survey ‘Family Office Governance’ cannot be considered complete and truly reflective, as respondents may not have been willing to divulge certain aspects of discontent or conflicts and/or may have been negligent in their answers. Misinterpretation of certain questions and faulty memories further diminish the accuracy of the survey thus introducing additional errors in the data analysis, restricting the survey’s usefulness as a research tool. Also, response rates to surveys are usually quite low, circa 10 percent, and therefore the response rate to the questionnaire on “FO Governance” turned out to be quite satisfactory with a workable response rate of 31 percent.
1.9 Review of Literature

The literature review is divided into three sections. The first section defines the historical background and the current state of an FO. The second section outlines the disciplines relevant to the problem of governance. The third section identifies major publications written on the FO industry.

FO literature offers only a narrow range of studies and literature concerned with the problem of FOs. Table 2; Literature summary provides a compilation of the main publications available in the general FO sector. A brief review of published materials on FOs will sharpen the procedure and findings of this dissertation. Publications dealing with the FO sector were written mainly by practitioners or are benchmark studies. Even in the academic environment, publications of FO studies are quite rare.\(^5\)

Even though many academics or professionals have written about the need for governance in the FO industry, their demand was not taken seriously by practitioners, except for adopt some best-practice recommendations.

<table>
<thead>
<tr>
<th>Literature</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conserving family wealth Family offices adapting to a new age</strong></td>
<td>Illustrates key issues facing the SFO now and in the near future in Europe. The research was conducted from October to December 2008.</td>
</tr>
<tr>
<td>by Merrill Lynch/Campden Research European Single Family Office Survey (2009)</td>
<td></td>
</tr>
<tr>
<td><strong>Advising Ultra Affluent Clients and Family Offices</strong></td>
<td>This book offers a prescriptive and practicable strategy to advice professionals interested in working in the FO industry with specific emphasis on investment allocation.</td>
</tr>
</tbody>
</table>

\(^5\) This excludes bachelor and master thesis written that have been referenced in section 2 Research Gap.
<table>
<thead>
<tr>
<th>Title</th>
<th>Author(s)</th>
<th>Year</th>
<th>Journal/Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep it in the Family</td>
<td>Avery</td>
<td>2004</td>
<td>Euromoney 35(425): 236-246</td>
</tr>
<tr>
<td>Strategy for the wealthy family seven principles to assure riches to riches across generations</td>
<td>Daniell</td>
<td>2008</td>
<td>John Wiley and Sons (Asia) Pte. Ltd.</td>
</tr>
<tr>
<td>Family Office im Private Wealth Management: Konzeption und empirische Untersuchung aus Sicht der Vermögensinhaber</td>
<td>Schaubach</td>
<td>2007</td>
<td></td>
</tr>
</tbody>
</table>

This article provides an overview of the FO industry, focusing on the historic evolution of FOs, and the financial development of the past decades.

This article illustrates the advantage of creating an FO in order to serve the family’s needs whilst keeping the family together.

Gray is an independent consultant for UHNWI and provides an insider’s view of the FO sphere.

This article focuses on the changes in the family office industry, in particular on the transition of SFOs to MFOs.

This author offers: “an integrated approach to all elements of strategy, including wealth preservation, wealth management, family business strategy, and personal plans for individual family members.”

This benchmark study addresses specific characteristics across America, Europe and Other Countries that are relevant issues for SFOs. The study is based on 250 interviews conducted across the world.

Identifies the financial investment strategies of FOs, specifically in Germany. Particularly analyzes the time dimension in the management of estates.
<table>
<thead>
<tr>
<th><strong>Inside the Family Office</strong></th>
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<tbody>
<tr>
<td>This book is based on a survey of 653 US FOs in 2003. It assists US families who were thinking about creating an FO. The attempt to collect data and provide some insights to the market was unique. A wide range of topics is covered, including the types of FO available and the various products and services offered.</td>
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</tbody>
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<table>
<thead>
<tr>
<th><strong>The New Family Office</strong></th>
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</thead>
<tbody>
<tr>
<td>This book is aimed at wealth management practitioners who want to either start an FO or acquire one as a client. The New Family Office recounts the history of the financial services industry and the beginning of the FO industry and offers detailed explanations.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th><strong>Wealth in Families</strong></th>
</tr>
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<tbody>
<tr>
<td>by Collier (2006) Harvard University</td>
</tr>
<tr>
<td>This book discusses best practices for handling specific issues concerning children growing up in a wealthy family.</td>
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<table>
<thead>
<tr>
<th><strong>Family: The Compact among Generations</strong></th>
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</thead>
<tbody>
<tr>
<td>This book gives a broad overview of family management with much historical reference.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>The New Financial Advisor: Strategies for Successful Family Wealth Management</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>by Budge, (2008) John Wiley &amp; Sons Ltd.</td>
</tr>
<tr>
<td>This book is addressed to the advisor of wealthy families, providing guidance on wealth management strategies.</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th><strong>Freedom from Wealth</strong></th>
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</thead>
<tbody>
<tr>
<td>The experience and strategies to help protect and grow private wealth</td>
</tr>
<tr>
<td>This book discusses strategies for members of FO families to manage their wealth and live an independent life of their choice. Practical guidelines and structure mechanisms are provided to assist in obtaining such a goal.</td>
</tr>
</tbody>
</table>

Table 2: Main Family Office Literature Review

Source: Author
The FO literature review lists theoretical and practical FO publications, and provides a brief description as outlined in table 2: Main Family Office Literature Review, which addresses aspects of FO governance. However, there is no single publication that provides a corporate governance framework for FOs.

‘New Corporate Governance’ is unique. Professor Martin Hilb (2008) developed a holistic, practical framework for corporate governance, integrating diverse theories into a system through the Reversed KISS Principle. This dissertation adopts Hilb’s concept of ‘New Corporate Governance’ based on the Reversed KISS Principle and develop ‘New Family Office Governance’.
1.10 Summary

This research endeavors to propose a holistic system of governance for Family Offices, modeled after “New Corporate Governance” and the Reversed KISS Principle covering the four dimensions of situation, strategy, integration and control (Hilb, 2008).

This dissertation’s specific approach bases the governance system on the board of directors, who should implement and control FO governance holistically.

The research will show how a board of directors can accrue added value in an industry which by law is not always obligated to establish a board, by adhering to FO governance, and incorporating it into every dimension of the FO.

In the introductory part the areas that follow have been defined, outlined and explained, the research positioning, in particular providing a road map for the outline of the dissertation. The problem analysis focuses on the changing environment of the FO and the problematic of implementing governance mechanisms. The research objective provides a theoretical and practical need for research, discussing subjects such as preservation of wealth, insufficient governance, freedom from wealth, successful transfer of wealth and governance through leadership.

Moreover, the definition of terms outlines the perspective that is discussed with corporate governance in relationship to FO and specifying what is ‘new’. In particular, this chapter identifies the importance of the board of directors.

The literature review provides a brief overview of works that have already been published in this field.
2 General Theoretical Section
The general theoretical part of “New Family Office Governance” provides an analytical framework to incorporate governance mechanism into the daily operation of an FO. Starting from the fundamental concept of ‘New Corporate Governance’ and analyzing other theories, this dissertation intends to probe and prove the necessity for FO governance.

‘New Family Office Governance’, specifically designed for an FO, is based on the integrated corporate governance framework ‘New Corporate Governance’, with its four dimensions of the Reversed KISS Principle. ‘New Family Office Governance’ proposes a holistic framework for the direction and control of office operations and for interpersonal conflict resolutions specifically designed for FOs.

The purpose of the general theoretical part is the creation of a guideline to establish a holistic governance framework for the FO, which retains enough flexibility to be adapted to each specific family’s requirements.

The following part will provide the theoretical rational to incorporate a holistic governance structure in FO operations, showing how the four dimensional Reversed KISS Principle can integrate previously isolated elements of corporate governance to establish the holistic framework for FO governance.

**2.1 Keep it Situational**

The chapter, ‘Keep it Situational’ presents an overview of the external and internal context. The situational dimension outlines the interactions between the external and internal context, positioning the FO into ‘hard laws’ and ‘soft laws’, namely the framework of legislation and compliance.

The Code of Business Conduct and Ethics of the New York Stock Exchange demands that “…conflict of interest should be prohibited, and a method should be provided for communicating potential conflicts so they can be avoided… Encouraging the reporting of any illegal or unethical behavior and ensure there will be no retaliation” (Hilb, 2009:34).

Swiss legislation prescribes a board of directors for entities such as an ‘Aktiengesellschaft’ (AG) or ‘Société Anonyme’ (S.A.) the most frequent legal entities
of an FO\(^6\). However, American FOs who base their offices in Switzerland under the constitution of a ‘Limited Liability Company’ (LLC) are not obliged to have a board of directors.

As theoretical research illustrates, the constitution of a board of directors by itself does not guarantee good governance. In FOs led by a strong principal, very often the founder of the family fortune, the board is not empowered, but as a ‘puppet board’ has only a symbolical function. Therefore, even with a board in place, the governance mechanisms which the board should implement are absent. Only an empowered board will guarantee the necessary equilibrium between all stakeholders of an FO.

An empowered board is defined as a board composed of mostly independent directors who are not, and have not been, shareholders or stakeholders of the entity, in this case, the FO. The independent as well as the executive directors should ideally compose a board which demonstrates diversity in background, ethnicity, expertise, and gender, but also one where skills and experiences complement each other.

The advantage of an empowered board for the FO, benchmarked by the respondents’ satisfaction level in the empirical part of the dissertation, will be theoretically examined throughout the other three dimensions of the Reversed KISS Principle.

### 2.1.1 External Context

The external context in the situational dimension places the entity, in this case the FO, into a grid of institutional, national and normative context.

The institutional context focuses on different management theories in order to identify the most suitable for the governance concerns of FOs. The national context places the FO into the political and social-economic perspective of its geographical location, and demonstrates the influence of the national culture on the FO culture, especially on its board culture. The normative organizational context covers the FO in its relevant legislative as well as legitimate frame. As this dissertation concentrates on Swiss FOs, the normative context is concerned with Swiss legislation, but cites internationally relevant recommendations for the practice of good governance.

\(^6\) An AG and S.A. and an Ltd are primarily known as an incorporation and consist of the same entity in the legal form. The only difference is in terms of language.
The three divisions of the external context assembled will create a clear understanding of the FO’s situational factors, and also determine those factors’ influence on the FO, its culture and its need and choice of governance structures.

\[ a) \textit{Institutional Context} \]

The institutional context of an entity is defined by the political system of a given society, which then extrapolates to the systems seen in enterprises by the accepted diverse management ideologies and styles.

For instance, countries with “presidential political systems (top-down approaches, such as those evident in France or the United States), generally grant CEOs considerable power and support. Countries with non-presidential political systems tend to be led in a more consensus-oriented style. And corporate governance practices are strongly influenced by whether careers are advanced primarily within a firm, as in Japan, or by changing firms, as is the case in the United States.” (Hilb, 2008:21).

These examples prove the influence of the institutional domains on the culture and corporate governance at the firm level in a particular country. In the FO sector the institutional factors evidently also shape the governance level of the office. But as FOs mostly have a global if not glocal dimension through their business interest as well as through their beneficiaries, the situational dimension in its institutional segment will be mitigated by the culture of the family itself, which will finally determine their corporate governance.

In view of many corporate governance scandals all over the world, the interest of top management as a stakeholder group needs to be checked. ‘New Family Office Governance’ attributes this role of strategic monitoring of the board of directors to avoid what Hilb refers to as "a top executive value orientation".

Clarke (2004) suggests that the main theories concerning corporate governance have been formed due to new economic opportunity or to resolve new economic problems which have emerged. Institutional theories should consider: “…corporate governance is ultimately the outcome of interaction among multiple stakeholders” (Aguilera and Jackson, 2003:448 in Hilb, 2009:19). In order for the institutional theories to establish positive inter-organizational relationship amongst the stakeholders, theories used should to have alignment and mirror the mentality of the family. In recent years, a
combination of different theories has been judged optimal to create a competitive advantage for the entity.

Corporate governance mechanisms in the agency theory focus on the elaboration and facilitation of market mechanisms, which include corporate control, management and labor relations, and corporate information, which should create self-control mechanisms for management since the incentive of the stakeholders and the manager are aligned. The agency theory is based upon the performance of a corporation. Jensen & Meckling, (1976) described the rational actors who seek to maximize their individual utility. Their research suggests that managers failing to act in the best interest of shareholders, resulting in a separation of ownership and control, create the agency problem (Eisenhardt, 2004); (Fama & Jensen, 1983), (Jensen & Meckling, 1976); (Shleifer & Vishny, 1997). Agency theory proposes the solution to align agents’ behavior with principals’ interests by establishing governance structures and introducing the board of directors as a supervisory and controlling board (Davis, Schoorman, & Donaldson, 1997).

Although an FO is not a family firm, the concept of ownership and control with regard to decision-making authority within FOs is assumed to be comparable.

Maury (2006) empirically examines how family-controlled firms perform in relation to firms with non-family controlling shareholders in Western Europe. The research illustrated that the efficiency gains from active family control can be translated into higher firm valuation to the overall benefit for the firm’s shareholders. Moreover, Barontini and Caprio (2006) investigated the relation between ownership structure and firm performance in continental Europe. They concluded that when the family is not represented on the board, family-controlled firms seem to perform worse than non-family firms.

Objectives of family members and objectives of family firms are rarely possible to separate as their entwinement in the family life is significant. The same concept applies to FOs; with the difference that these entities are established to serve the family as well as any other individual that is considered a beneficiary, whereas a family business is established to produce goods or a service that can be sold to generate profit. The beneficiaries may differ in their expectations of the FO especially when determining the roles and responsibilities of stakeholders. This difference in expectations, if not addressed, may affect negatively the intra-organizational relationship in the FO, directly affecting the satisfaction level of all stakeholders.
Stewardship theory, contrary to agency theory, presents an executive primarily motivated to act in the best interest of the principals (Donaldson & Davis, 1989, 1991); (Davis, Schoorman, & Donaldson, 1997). This theory is based on pro-organizational and collectivistic behavior with a long term view. Stewardship theorists argue that behaviors of the executive are aligned with the interest of the principals. The Steward realizes the trade-off between personal needs and organizational objectives and believes that by working toward organizational, collective ends, personal needs are met (Davis, Schoorman, and Donaldson, 1997).

Table 3: ‘Comparison of Agency Theory and Stewardship Theory Objectives’ illustrates how the two different schools of thought interpret the agent’s (manager) objective.

### Comparison of Agency Theory and Stewardship Theory Objectives

<table>
<thead>
<tr>
<th>Agency Theory (leader/manager)</th>
<th>Stewardship Theory (leader/manager)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is self-serving</td>
<td>Is collective serving</td>
</tr>
<tr>
<td>Is motivated by lower order needs</td>
<td>Is motivated by higher order needs</td>
</tr>
<tr>
<td>Relies on institutional power</td>
<td>Relies on personal power</td>
</tr>
<tr>
<td>Is control oriented and uses control mechanisms</td>
<td>Is involvement oriented and uses trust in the leadership approach</td>
</tr>
<tr>
<td>Embraces individualism and embraces high power distance</td>
<td>Embraces collectivism and embraces low power distance</td>
</tr>
<tr>
<td>Thinks short term</td>
<td>Long term view</td>
</tr>
<tr>
<td>Emphasizes cost control</td>
<td>Emphasizes performance enhancement</td>
</tr>
</tbody>
</table>

Table 3: Comparison of Agency Theory and Stewardship Theory Objectives

Source: Alexander (2011)

Stakeholder theory has existed in various forms, and has been based on different economic principles, since the origins of industrialism (Clarke, 2004). Building on previous theories, corporate governance mechanisms using the stakeholder theory with specific focus on the shareholder approach have been examined. Academics and professionals have recognized the importance of conflict resolution in intra-organizational relations by establishing positive relationships amongst the
stakeholders. The basic idea of creating value for stakeholders through alignment of interests is supported by a set of relationships among groups with a stake in the business activities (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010:24). “Business is about how customers, suppliers, employees, financiers (stockholders, bondholders, and banking institutions), communities, and managers interact and create value: to understand a business is to know how these relationships work” (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010:24).

In particular, organizational theorists contributed relevant insights of the practical impact of the stakeholder theory. For instance, Evan (1966) studied intra-organizational relationships, both conceptual and empirical, and developed the concept of “organization-set” which analyzes the interactions of an organization with “the network of organizations in its environment” (Desai, Roberts, & Srivastava, 2010:43).

Guillen (2004) argues that governance models are embedded in the specific national legal structures entailing complex interactions. Clarke (2004) finds that the stakeholder theory concentrates on the internal and external stakeholders with equal importance, while Hilb (2008:11) builds upon the stakeholder theory with the integration of the shareholder approach to identify the board of directors as a mechanism to direct and control the entity. He establishes the ‘Glocal Approach’; a combination of the global aspect based on the shareholder approach and the local governance based on the stakeholder theory.

This concept fits the requirements of FOs, which through geographic dispersion of family members as well as diverse entrepreneurial interests definitely need a global approach. Nonetheless, to guarantee good FO governance, the local dimension must not be neglected. Ergo, those two aspects combined lead to the glocal approach, which covers the interests of shareholders as well as all stakeholders from the local to the global perspective.
In order to ensure that an FO operates successfully and can meet its goals of sustainability and control while establishing intra-organizational relationship among the stakeholders, the board of directors’ role is of crucial importance. Some FOs refer to the board of directors as a supervisory board, protector, or a board of external consultants. To eliminate any ambiguity, the board of directors is defined as a group of
independent people elected by the shareholders, who are responsible for the strategic direction of the FO and also diligently monitor and control performance.

The main concern that governance attributes should address have been analyzed by scholars such as Ruigrok, Peck, and Keller (2006), who identify the need for the board of directors to solve potential conflict of interest between shareholders and top management.

Moreover, when discussing the agency theory perspective, Jensen (1993) as well as Shleifer and Vishny (1997) focus their studies on the premise that the role of the board of directors should primarily complement market and shareholder pressure in limiting managers’ discretion to engage in opportunistic, self-interested behavior and therefore act in the best interest of the entity.

Pfeffer (1972) stated the importance of board of directors when combining positive relations with their vast expertise, thereby achieving positive business relations, and more particularly, interlocking directorships as an instrument for cooperation. Other theories underline the enrichment of different leadership styles, management techniques and innovations when board members are exposed to a variety of different boards (Pennings, 1980); (Useem, 2003), (Useem, 1984); (Young, Charns, & Shortell, 2001).

b) National Context

“Build a good foundation by selecting the right [governance] structure and your fledgling concern will get off to a great start.”

Source: (McCune, 2000)

The national context, by definition, will differ in various countries not only in the political or economic system, but also in the type of its relevant financial system which will shape the infrastructure. Also, each country’s legislation settles property or ownership rights accordingly.

Therefore, the nature and extent of internal networks are influenced by those external modalities and in combination influence the governance structures of the enterprise. Legal systems differ from country to country and so does the legal structure of FOs.
With the emergence of different offices globally, Switzerland hosts FOs registered as A.G/S.A/Ltd, Foundations, Funds, GmbH, LLCs.

As the family grows larger and locates into different geographical areas, with business interests also growing more global, the demands to serve all needs becomes extremely complex, especially the decision-making process. According to the Merrill Lynch/Campden Research European Single Family Office Survey (2009) and Amit, Liechtenstein, Prats, Pendleton, & Millay (2008), the larger the fortune and the family becomes after the founding generation, the more the number of committees increase, as the task to direct, manage and control the FO becomes more challenging. Specifically, the Family Alliance Report; the Single Family Office: Private Management in Family Context Report (2008) outlines the correlation between wealth level and increasing amount of committees in Single Family Offices with specific emphasis on a comparison between America and Europe (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2008). The Report (2009), also focused on the structure and procedure of committees with regards to reporting cost, communication and decision-making (Merrill Lynch and Campden Research Media, 2009:6-7).

Since FOs are not businesses, the role and function of the board is unique. The dictionary defines the ‘board of directors’ as “a group elected by shareholders to set company policy and appoint the chief executives and operating officers” (Gifis, 2010:59). Furthermore, “de facto” board of directors are described as: “the board which in fact is in charge of the affairs of a company and is recognized as such and is performing the legitimate functions and duties of a board” Gifis (2010:142).

Some of the duties of the board of directors are outlined in the Swiss Code of Best Practice for Corporate Governance (2007):

“Ultimate direction of the entity and providing necessary directives;
Structuring the accounting system and financial controls, planning and management of the entity,
Appointing and dismissing of entrusted employees,
Ultimate supervision of the entity and entrusted individuals,
Preparation of the annual report and general shareholders’ meeting as well as implementation of its resolutions;
Legal notification if dispute over assets occur.”

Source: Swiss Code of Obligations (2007:Art. 716a [1])
Legal duties of the board of directors change with alternative formation of entities. For example: in Switzerland most FOs are established as a joint stock company.

The legal form of the Kanton St. Gallen states:

“Under Swiss law, the joint stock corporation is a legal person whose liability is limited to corporate assets. In order to establish a joint stock corporation there must be at least three shareholders, of whom at least one must be a Swiss citizen. The corporate organs are the General Meeting of the shareholders (superior authority), the Board of Directors (general management and superintendence) and the Auditors (auditing the annual balance sheet).

The board of directors must consist of a majority of Swiss citizens who are domiciled in Switzerland. The so-called "one-man [Aktiengesellschaft] AG", in which the general meeting and the board of directors are made up of one and the same person, is possible with slight restrictions.”

Source: (Kanton St. Gallen)

Likewise, in France, Belgium, Luxembourg and Monaco, as well as francophone countries such as Lebanon, Algeria, Tunisia, Morocco, Mauritania and various other African countries, a commonly used term for joint stock companies is: Société Anonyme (SA). An AG and SA and Ltd are the same legal entity: the only difference lies in the language of the term.

Compared to the established legal structures of an FO in the United States of America, an AG/SA/Ltd resembles the structure of a LLC. Although some of the fundamental features are the same, the main differences are that owners can benefit from pass-through taxation, avoiding double taxation. An LLC allows for multiple owners, or members. The members are compensated by either distributions of profit payments or guaranteed payments. This creates a great advantage from special tax-favored "fringe benefit" treatment, as profit is not considered earned income and members' usage of bottom-line profit is not considered earned income. An LLC does not have any legal obligation to create a board of directors (Bundesgesetz betreffend die Ergänzung des Schweizerischen Zivilgesetzbuches (Fünfter Teil: Obligationenrecht, 1911).

In comparison, most FOs in Germany are established through the creation of a GmbH, an entity with limited liability which, according to Gifis (2010:317) law dictionary, benefits from the limitation on the amount an investor can lose resulting from a lawsuit
against the entity or other loss suffered by the entity. The liability for losses is limited to the amount an investor or shareholder invests, unless that amount is determined by a court to be declared fraudulently insufficient. Furthermore, the entity also benefits from limited liability in as much as those obligations are always limited to its assets unless, with regard to particular transactions, personal responsibility is assumed by an officer or shareholder of the entity. Governance is seen in its broadest sense as the system "by which corporations are directed and controlled" (Cadbury, 1992:1).

Due to the financial crisis and mismanagement of fortunes, interest in corporate governance has increased. Lack of good corporate governance is regarded as one of the main reasons for the loss of many fortunes. Because of this, many UHNWF have started to develop guidelines to ensure and improve the existing control and management structures in their FO. To achieve ‘good’ governance, according to Merrill Lynch and Campden Research Media (2009:9), “the vast majority of FOs have formal structures and procedures in place for managing aspects of the FO business and reporting back progress and performance to family members, the most popular being the owners’ committee and the investment committee.” Furthermore, the report also states that most decisions are made by consensus of a majority of committee members. Committee members are also referred to as the supervisory board, the controlling board or the advisory board. Given the task of such boards, the name of each of these boards is justifiable: however it is arguable that the boards have to complete the task of all of these terms combined.

As the Swiss Code of Obligation (CO) article 716a under number 1 states, ultimate direction of the company is assigned to the board of directors. The official term used to identify boards that undertake the task to strategically direct and holistically manage is “the board of directors” (Bundesgesetz betreffend die Ergänzung des Schweizerischen Zivilgesetzbuches (Fünfter Teil: Obligationenrecht), 1911). Moreover, Kalia and Müller (2007:12) outlined that: “in connection with these tasks, the board of directors also has the undelegable duty to avoid unnecessary risks and minimize inevitable risks in order to guarantee the existence and the advancement of the enterprise”. Therefore, according to article 663b CO, from the beginning of the year 2008, all ‘companies’ are forced to make a comment in the notes to the annual financial statement to the carrying out of risk assessment” (Kalia & Müller, 2007:12) (Bundesgesetz betreffend die Ergänzung des Schweizerischen Zivilgesetzbuches (Fünfter Teil: Obligationenrecht), 1911).
The CO identifies, from a legal perspective, the importance of the role of the board of directors in Switzerland, attributing to the board of directors the responsibility for implementing and controlling governance mechanisms and structures.

With this legal mandate in mind, the role of the board and its impact on governance defines the perimeter of this research. The role of the board of directors is crucial in order to ensure that an FO operates successfully and can meet its goals of sustainability and control while establishing good intra-organizational relationship among the stakeholders.

c) Organizational Context

By the beginning of the Twentieth Century extremely wealthy families held very substantial assets. Due to industrialization, their fortune was not restricted to land real estate and their yields, but became increasingly liquid. Concentrations of wealthy families have traditionally been found to be located in Europe and America, but others were scattered across different parts of the world. As this segment expanded, a need emerged to manage these family businesses more efficiently enabling them to preserve and maximize as well as transmit their wealth to successive generations.

It is rather difficult to state exactly when the first FO was created, although the concepts and elements of services provided in FOs are recorded as early as the creation of wealth. The modern FO did not, however, originate, to benefit families of significant wealth until the American industrial age (Robles, 2009:4).

Haas (2006) states that one of the first establishments providing financial services for family wealth management was established by the private bank today known as “JP Morgan Chase” (Haas, 2006:1). This financial institution was established by Julius Morgan, who in 1838 had the entrepreneurial vision of providing personalized financial services to families with substantial wealth that exceeded the traditional banking services.

Nevertheless, Hylton (1992) dates the first proper FO to 1989, when John D. Rockefeller Jr. created this entity to keep a vast fortune from atrophy. Initially, a trust was established to preserve the family fortune for his daughter and five sons. However, with the goal in mind of building per-capita wealth for each family member, John D. Rockefeller Jr. hired a team of professional managers in 1989. The decision of
purposely hiring external managers with the explicit aim to preserve the family fortune is a milestone in the evolution of the FO (Hylton, 1992).

Figure 7 shows an example representation of the complexity of the service scope of an FO which illustrates the complexity of FO operations. BNY Mellon Asset Management, a leading global provider of investment management products and services, originally designated a single asset allocation for all participants and consensual determination of investment choices, entrusting the capital within the pool to the investment committee. With increasing complexity in the FO’s structure, the operation expenses climb higher in direct relation. Operation costs can accumulate up to and over US $1 million per year (Frank, 2004).

Figure 7: Example representation of the complexity of the service scope of an FO

Source: (Pompian, 2009:251-254)

Original: BNY Mellon Asset Management (e-source) Single Family Pool
This structure illustrates the diversity of asset allocations and family partnerships in UHNWFs. As the number of beneficiaries, in the figure 7, labeled for family members (FM) increases, the necessity of additional services for the individual beneficiaries will also increase. Making the structure of an FO even more complex, the nuclear family has been replaced more often than not by "patch-work families", due to divorce and remarriage or simply relocation. Therefore, it is necessary for the modern FO, even when discounting the human factor, to familiarize itself with the tax-laws, inheritance procedures, and entitlements of the different members of one family, as well as their different expectations and demands. Naturally, it can be foreseen that even more differences and complications may arise over the years. Thus, if a family is concerned in keeping its assets for future generations in a manner specific to them, it needs an FO that deals not only with wealth management but also with their long term requirements. The amount of wealth involved, as well as its complexity, illustrates the necessity of an effective and efficient governance structure.

The global economic recessions that followed collapsing financial markets also brought problems of illiquidity to those FOs with minimal control function and neglected risk policies. The tendency of FO portfolios being highly exposed to alternative investments – which in some cases in 2008 comprised as much as 50% of investments in hedge funds, private equity and other alternatives – has hit even the very wealthy hard (The Merrill Lynch/Campden Research European Single Family Office Survey, 2009).

Wealthy families have always worried about losing their wealth due to political, economic or human circumstances. New concepts have been developed to preserve wealth by offering financial management expertise, creating the entity we know now as an FO. Ehlem suggests that the concept of FOs, also known as “protectors of family wealth” (Ehlem, 2008:116), dates back to the Crusades. The concept of trust so vitally important in an FO was first encountered in the arena of wealth protection in the strategic planning of European banker families such as the Medicis and the Rothschilds’. Furthermore, Ehlem (2008:106) establishes the connection between individuals and groups of people dedicated to serving, protecting and preserving a family and their members across several generations back to 1600 B.C. China of the Shang dynasty and merchants in ancient Japan.

The constant geographical relocation of families all over the globe, may not necessarily divide family unity. The Brenninkmeijer family, founder of the clothing
store chain C&A in Europe in 1841, has expanded and prospered throughout the
generations. The business has accumulated large amounts of wealth and today’s
generation is united in the COFRA group FO established in 2001 (Corfa Holdings AG,
2006).

According to Avery (2004), a rough guide to calculate cost postulates that it would
average around 1% of assets under management annually. He states that the minimum
amount of assets held by an FO therefore, should not be less than $400 million. Others
such as Frank, (2004) recommend an even higher amount of asset management,
establishing an FO with no less than US $500 million. Due to the high operational
cost, The Merrill Lynch/Campden Research European Single Family Office Survey,
(2009:5) found that a significant number of families felt it necessary to have more than
250 million pounds in financial assets to operate an FO. Amit, Liechtenstein, Prats,
Pendleton, & Millay (2008) report that more than half of their interviewed FOs dispose
of wealth exceeding US $1 billion.

In a client service industry, an increasing amount of assets under management are
associated with higher client expectations in regard to the services rendered. Insurance
brokerage firms and agencies, as well as investment management and brokerage firms,
typically provide separate accounts, mutual funds and other managed accounts and
insurance services to individuals with assets above $1 million (Family Office
Exchange, 2011). Law, accounting and consulting firms, illustrated as the second pillar
in figure 8: ‘FO Service Expectation Pyramid’, typically offer various services such as
strategy and policy development, asset allocation and manager selection, tax planning
and compliance, estate planning, and financial planning to individuals with assets of
$1 million-$20+ million (Family Office Exchange, 2011). Wealth management firms
have introduced specific departments to cater to HNWIs and UHNWIs, ranging in
assets of $5-$20+ million. These entities usually offer a wide range of services with a
specific emphasis on cash flow management, personal philanthropy and private
banking. In figure 8: FO Services Expectation Pyramid; at the peak of the pyramid, the
category Single Family Office (SFO) generally holds assets exceeding $100+ million,
and services only one family. This family thereby has ultimate control of the SFO.

Multi-Family Offices (MFOs) target a wealth group of $20-$100+ million focusing on
integrated wealth planning, oversight of fiduciary services, liability management,
lifestyle, management, strategic philanthropy, family legacy, education and
governance for several families, not necessarily related.
Commercial Family Offices (CFOs) are departments in the banking sector or legal corporations that offer specific services to HNWFs. Services that these entities provide encompass matters of tax and estate planning, oversight of tax compliance, fiduciary services, risk management, and tax sensitive asset management. The assets under management are typically $10-$50+ millions.

**FO Service Expectation Pyramid**

![FO Service Expectation Pyramid]

Figure 8: FO Service Expectation Pyramid

Source: (Family Office Exchange, 2011)
Various definitions of the SFO have been provided in earlier stages; nevertheless, a clear separation amongst the different categories of FOs has not been distinctly drawn. Merrill Lynch and Campden Research Media (2009) states:

“Consistent with HNWI’s move toward institutional behaviors, families with USD 50 million to USD 100 million in assets address their advisory needs through the formation of a Family Office- a structure that can address the complex needs of a large group of shareholders within a single family with wealth spread across numerous asset classes, and currencies. In these arrangements a team of professionals provides access to a wide variety of specialized products and services.”

Source: Merrill Lynch and Campden Research Media (2009)

Wharton Global Family Alliance Report; The Single Family Offices: Private Management in Family Context Report (2009) defines SFOs as: “professional organizations dedicated to managing the personal fortunes and lives of very wealthy families… their charge is to protect their particular family’s investment and assets for both current and subsequent generations” (Amit & Liechtenstein, Report Highlights for “Benchmarking the Single Family Office: Identifying the Performance Drivers”, 2009:1).

UHNW families have the advantage of living in multiple countries and pursuing business interests all over the globe; hence, detailed services specially providing information and management are needed. The SFO is a pool for such information and therefore offers flexibility for the families to live the lifestyle they choose. Depending on the family’s assets and requirements FOs show three distinctive organizational trends: administrative, hybrid, or comprehensive.

In an administrative family office, advisory and investment management services are managed through contracts with external service providers. The administrative family office typically directly employs staff to provide some level of bookkeeping, tax, or administrative services, often on a part-time basis. Families that utilize an administrative family office template usually have an asset base of $50 million to several hundred million dollars. Overhead costs for this model range from $100,000 to $500,000.

i) Single Family Office
The hybrid family office keeps functions strategic to the family’s objectives in-house, and outsources non-strategic functions. Some families hire family members for certain strategic activities, when the family member has a demonstrated expertise or when privacy and continuity of management are top concerns. In addition to administrative functions, hybrid family offices employ experts in the area of tax, legal, and/or asset allocation. Certain investment management functions may be kept in-house, particularly where it leverages a family’s industry expertise, for example real estate investing. Families that utilize a hybrid family office template typically have an asset base of $100 million to $1 billion. Overhead costs for this model range from $500,000 to $2 million or more.

“The comprehensive family office is designed to provide services for families who desire the maximum degree of control, security, and privacy. All functions, including administrative, tax, legal, risk management, and core investment management, are provided by in-house employees. Specialized investment management activities such as hedge fund, venture capital, private equity, or emerging market investments may be sourced externally depending on each family’s objectives, budget and their ability to recruit and retain such talent. Families that utilize the comprehensive template typically have assets greater than $1 billion. Overhead costs for this model range from $1,000,000 to $10,000,000 or more when performance bonuses are included.”

Source: Martios and Millay in (Pompian, 2009:261-262)

ii) Multi Family Office

The MFO aggregates and focuses resources based on common interest in the same spectrum of services to various families. Various models of MFOs exist, and according to the Family Office Exchange (2011) the following variations of MFOs are the most frequent in the industry:

- Long-established family offices that recognized the only way they could keep their family office intact and attract the most qualified professional staff was to increase the assets managed by offering their services to additional investors.

- Long-established family offices that have chartered private trust companies to handle their family trust needs and those of other families.
Family groups that consciously developed a global investment expertise to serve their needs and those of other investors.

Family groups that turned ownership of the family office over to the management team but remained satisfied clients of the office.

Non-family owned financial service groups specializing in family office-type services.

Source: (Family Office Exchange, 2011)

MFOs focus on providing services in order to leverage investment power and expand the knowledge base for UHNWIs. Examples of entities which fall under the description of MFOs in Switzerland are companies that include Cottonfield Family Office AG, Finance Suisse, Octogone Family Office SA, and Harald Quandt Family Office.

### iii) Commercial Family Office

The CFO is typically a department of a financial institution, such as a bank, which provides services for high net worth individuals (Pompian, 2009:261).

Financial service providers have understood the growing importance of the FO industry and have responded by providing catered services to FOs. For instance, Pictet Family Office Division, Julius Baer Family Office AG, UBS Family Office Services and Goldman Sachs Multi-Family Office Division specialize in financial planning, financial administrative functions and tax consultancy. The question arises, however, whether even a trusted financial institution can deliver the same service as a full in-house FO, which provides a full scope of services. It has been observed that the design of most SFOs is tailored to the individual customer family. As every family is different, not only by origin, but also by the origin of their wealth, their interest, whether economic, cultural or even philanthropic can be expected to grow and diverge over time.

Moreover, the world has become much smaller, so different members of one family do not cluster around an ancestral home but, because of their studies, marriages or occupations live dispersed all over the globe, which makes it difficult for a financial
institution to provide full in-house services in different legal surroundings. With time, surely CFOs will be able to meet demand, and already now actively research new opportunities in this expanding financial market segment.
2.1.2 Internal Context

"If contact between people is based on trust and absolute integrity, then it is of benefit for both sides."

Source: Julius Baer, 1857 – 1922

An FO continually has to work on intra-family relationship management, in particular personal relationships amongst stakeholders. Gersick, Lansberg and Davis (1990) explored this impact on entities owned by the family. They analyzed the dynamics on structure and process. The results showed an increasing benefit at the development stage given the presence of the founding owner in terms of daily operations. They have deduced that family dynamics of inter-generational conflict were not the most commonly reported source of stress on the board level when the founding owner was present. One explanation postulates that the founding owner, typically holding the position of principal, is seldom challenged within the family or the entity.

In later generations, according to Gersick, Lansberg and Davis (1990:364), selection processes are used to exclude some offspring from consideration for a seat on the board and thus avoid the most hostile parent-child pairings. Close alliances have been observed in parent-child relationships when parents were present on the boards. However, according to their findings, conflicts have been reported frequently between siblings power struggles due to birth order and gender. Clear competition for the position of next principal has been seen in the younger generation. Open conflict on the board, or the exclusion of some family members from the board have been the result of such conflict. Coping mechanisms have been formed with a sort of log-rolling system in place (Gersick K. E., Davis, Mc Collom Hampton, & Lansberg, 1997:9). For example, board member A went along with board member B’s priorities in their area of expertise; board member D did not challenge board member A in his priorities. In some cases such coping mechanisms work better than in other cases (Magretta, 1998). However, in all instances of internal conflict the overall entity is weakened.

Family dynamics play a significant role in FOs, as conflicts can hamper the ability to maintain the sustainability of the wealth. In the worst case scenario, a family member runs the FO and is not qualified to do so. The dynamics of the family can often cause difficulties for professionals hired to work for the office. Reward power, or limiting
power in the most extreme case, regarding principal-agent relationship, is seen as coercive power through the threat of termination of employment (Davis, Schoorman, & Donaldson, 1997:124). Reward power or legitimate power is given or taken instantly. The longtime establishment of referent power or expert power, on the other hand, which develops in the principal-steward relationship, is not affected by formal roles in the organization (Davis, Schoorman, & Donaldson, 1997:124). The type of power granted depends on the family’s prevailing characteristics and its culture.

The three-circle model of family business was originally developed by John Davis and Renato Tagiuri in 1932 (Magretta, 1998:117). Davis and Tagiuri argue that accurate and critical distinction between ownership and management can be illustrated by creating a sub-system within the business circle, thus identifying the convergence of each individual subsystem; ownership, family, and business (Gersick, Davis, McCollom Hampton, & Lansberg, 1997:5-6). The model depicts the special tensions that arise in families (Gersick, Davis, McCollom Hampton, & Lansberg, 1997:6-7).

In order to understand the source of conflict and priorities in the family-owned enterprise Gersick, Davis, Hampton, Lansberg, & McCollom Hampton, (1997:6) analyzed special tensions that often crop up in family businesses. In order to understand the necessary governance structure, the conceptual framework shows that stakeholders play multiple roles in the enterprise. The key is understanding, which stakeholder plays which role and how this can be used to resolve potential conflict. For example: a person in sector 4, for example – a stock owning family member who is not an employee- might argue that the company should be paying higher dividends, He might be at odds with someone in sector 7 – a company vice-president who also happens to be his sister. She wants to reinvest in the company’s expansion, which would improve its long-term outlook.

The three-circle model of family business may assist leaders of family entities to resolve such differences by sorting out the personal from the professional” (Magretta, 1998:117).
The Three-Circle Model of Family Business

As the three-circle model of family business is flexible in its framework, various modifications exist. For example, the Ahlstrom Corporations labeled the three circles family, the board of directors and top management (Magretta, 1998:117). Incorporating this model and adjusting it to the FO entity, the stakeholders in an FO can be categories in the three individual groups. Ownership is primarily held within the family. However, not every family member is an owner; therefore the second circle represents the family. The third circle is labeled business, as the capital and the assets held within the FO are created by the business and purposely held in the FO. Consequently, it is not necessarily the case that individual beneficiaries of the FO are automatically also involved in the business. Nevertheless, concurrent involvement in the family office, as a member of the family and holding an active role in the business, is quite common.
a) Ownership

The ownership conditions of an FO will largely determine the system of governance used. Each of the stakeholders should have a specific responsibility in regard to their role in the FO. The OECD Principles of Corporate Governance (2004, 46-48) state the role of stakeholders, and recognize their rights to establish and encourage active cooperation:

The rights of stakeholders that are established by law or through mutual agreements are to be respected.

Where stakeholder’s interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.

Performance-enhancing mechanisms for employee participation should be permitted to develop.

Where stakeholders participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis.

Stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and their rights should not be compromised for doing this.

The corporate governance framework should be complemented by an effective, efficient insolvency framework and by effective enforcement of creditor rights.


When applying the OECD rules, the principal of the FO will have a multi-role function, which can include chairmanship of the board or the officer position, implying that ownership is extremely significant when establishing the rules and regulations in the FO, which then should be clearly communicated to all stakeholders.
b) Ownership strategy

As mentioned before FOS closely resemble family enterprises especially SMEs through the ownership structure based on the family and therefore SMEs and FOS focus on the specific family interests and the family’s vision. In both cases two extremely different social systems are united (Hilb, Höppner, Leenen, & Mühlebach, 2009: 25).

The ownership strategy evolves out of those factors the family vision and then develops into the company’s strategy.

As the latter has to be eventually redirected and modified depending on the market’s variable conditions, so the ownership strategy, and especially for FOS, the family strategy, its goals and vision have to be eventually revised and amended.

An ownership strategy developed on the structures of FO governance will cover all the dimensions from the situational, the strategic over the international to the controlling. As with SMEs, the FOS count the same advantages and disadvantages.

The strengths are:

- Long term horizon for investments and strategies
- Uncomplicated and rather flexible structures
- Informal and formal communication channels allowing for fast and uncomplicated decision taking
- The human capital of the family

The weaknesses are:

- Insufficient know-how, especially concerning strategic management
- Missing incentives for attracting highly qualified staff
- Lack of liquidity ‘patient capital’ and expansion
- Faulty or non-existent succession planning

Conclusively ownership strategy needs to cover the following domains: vision and values, independence, growth, result orientation, innovation and responsibility for compliance, risk monitoring and succession. In a successful FO these strategies will be implemented and monitored by a strategically targeted selected board of directors.
Owner strategy defines the essence of the enterprise strategy and so presents the basic tools for the board activities. For instance, the exemplary case study of Owner’s Strategy of the Muster Group illustrates the purpose of the owner’s strategy:

- Set out the framework for the activities of the board of director
- Establish the details and implementation of guidelines
- Identify the responsibilities of the board of directors and senior management.
- Deviations from these guidelines must be submitted for the review and approval by the owner early on and in full transparency
- The powers of the shareholders are determined by the law
- [Stakeholders] alone are entitled to make decisions concerning the election and discharge of the board of directors, appointment of auditors, approval of the final accounts, dividend payments and equity policy.
- The shareholders determine the business areas and competencies of the entity; they are responsible for decisions on mergers, conversion of corporate entities and any liquidation.

Source: (Müller, Owner’s Strategy of the Muster Group, 2012:1)

Müller sees the board of directors delegating business operations to management but implementing their specific owner strategy.

For New Family Office Governance this situation of possible divergence between owner strategy and management or board’s philosophy demands an effort for consensus, especially encouraged by the board to guarantee stability and a culture of trust.

c) Family

The families, defined in an FO as the beneficiaries, are usually family members who profit from the payouts and services provided by the FO. These expectations require the FO to establish added value for the beneficiaries. The role of the beneficiaries can be active or passive. Some beneficiaries take an active role and work in a specific field of the FO. Others decide that their interests are not overlapping with the family affairs
and they do not have any intention to work for the FO. Therefore, these beneficiaries simply profit from the generated income.

Considering recent legislation, particularly on taxation in the United States of America, which directly impacts also on non-US families, non compliance by even one individual family member can effectively destroy the FO (Lowenhaupt, 2011:5). It is the ability to achieve consensus that creates the competitive advantage for the families.

One of the best examples of a family preserving their wealth over generations by a set of shared values and representative governance is the history of the Rothschild family, whose name has become synonymous for wealth.

In the mid-eighteenth century Mayer Amschel Rothschild founded his bank in Germany. When his well-educated five sons came of age, he loaned them their starting funds and sent them to the five financial capitals of Europe; at this time Frankfurt, Vienna, Naples, London and Paris, to set up their own banks.

His two conditions were that his sons repay their loans with very low interest: afterwards they could keep their earnings. More importantly, he also demanded that every son should keep him, the founding house, informed of all political and economic news in their respective locations.

The Rothschild branches in Frankfurt, Vienna and Naples failed due to wars, economic upheavals and especially the Holocaust, but the branches in London and Paris are still successful 250 years later.

This example demonstrates that geographic diversity is just as important as human diversity, leading to an exclusive network for information and mutual succor guaranteeing sustainability. The wisdom of the founder Mayer Amschel Rothschild was first, making his sons work for their investment, and second for visualizing an idea which only today is appreciated, “the idea of a global business built on intellectual capital is sweeping the world” (Hughes, 2004:81).
The board of directors provides governance in the form of oversight, direction, monitoring and control – regarding strategy, operations and management, whereas the officer and the executives are in charge of the daily operations of the FO, following the board’s directives.

The optimum allocation of resources is given when the board of directors is informed and aware of the operation, and both strategically manages and holistically controls the FO. The board of directors has the function of oversight in the entity and in most cases also mentors and monitors the officer and acts as an informative body to the principal. The board of directors, in terms of monitoring and controlling the entity, is at the heart of operations. For the entity to retain a competitive advantage it is important that FOs request more than just financial advice but have a solid foundation to oversee operations. Moorkens suggested in an interview: “when the most intelligent guys have no challenge there is no future” (Knight, 2009:63).

The officer (the intelligent guy!) manages the daily operations of the FO. Traditionally, the officer has financial expertise and, especially in the beginning of the FO’s history, comes from the upper management of the family business. Ideally, he/she needs to be loyal and trustworthy and should be able to distance him/herself from family politics (Simms, 2009). The role of officer is the keystone in the administrative and operational function of the FO. Family conflicts are always mirrored in the FO, and one of the major problems of many wealth founders is their inability to relinquish control. Striving for absolute control of ownership over the family assets often goes with the ambition to completely control the family members, often the second generation, by the ‘purse strings’. The greatest fear of such individuals is their loss of control, specifically over their assets, which define their feeling of self-worth. This behavior causes problems of transition, and increases the liabilities that endanger the family’s wealth (Hughes, 2004:97).

Therefore, the “separation of power” between ownership and control of the FO proves beneficial. According to Hughes (2004:97): “…control without ownership means that each family members adopts the idea that ‘I am the owner of something if I control it, even if I am not the legal owner…’.”
e) The FO Board in the Internal Context

The FO, like a family business, and like the family itself, crosses through different life cycles in its history. These developments will also be expressed in ever-changing constellations and requirements of the FO’s stakeholders, but also the requirements of the FO organization itself.

Therefore FO governance offers an adaptable framework based on the fixed governance guidelines of the Reversed KISS Principle and the FO board.

i) The FO Board Configuration

Depending on the size and complexity of its operations, many small to medium family enterprises as well as FOs start with an advisory board which may also be administrative. Then they turn to a supervisory and later an entrepreneurial board to finally become the “directing and controlling board” which the FO governance framework relies on (Hilb 2008: VII).

In some countries, for example Germany and Indonesia, the ‘dual’ board system prescribes the strict separation between the supervisory and the managing board (Hilb, 2008:49). But in most countries there is a “monistic” board system, the supervisory including directors from management (Hilb, 2008:49).

The monistic system of the executive board model is often used in family-owned businesses where family members of both the supervisory and managing boards form the executive managing board (Hilb. 2008:50).

The non-executive board, usual in the United States, shows a majority of external and independent directors. But even with the function of a “lead director “introduced when the CEO is simultaneously also chairman of the board, this situation “presents a risk of power concentration with the CEO” (Hilb, 2008:51).

The optimal board model according to FO governance and recommended also by the Economic-Suisse Recommendations (2002) and the OECD Principles (2004) is the directing and controlling board whose majority should be a “class of totally independent directors who have no vested interest” (Vermeulen, 2002:20 in Hilb, 2008:52)
ii) Board Organization

As mentioned before, FOs are very similar to family enterprises since both the composition of shareholders and stakeholders, and their focus on the family is similar. Also in both cases, especially in the starting phase, the founders or principals do not see the significant advantage of having a board for their entity. Simply complying with legal obligations if they are present, they do not appreciate the need to have an effective board and deplore the additional cost. The question of governance remains unanswered.

A study of German family businesses with 100 to 500 employees surveyed 206 entities of which 60 disposed of a board of directors whose contributions were judged of great importance by 43.3% and only neutral by 10% (Hilb, Höppner, Leenen, & Mühlebach, 2009:43). Furthermore, whereas 25% of the respondents felt that cost equaled usefulness of the board, 63.3% stated that the contribution of their board far outweighed their cost (Hilb, Höppner, Leenen, & Mühlebach, 2009:44).

The level of organizational complexity depends on the size, developmental stage of the entity and its requirements for professional expertise and personality attributes. This will be discussed further as targeted selection of board members in the integrational dimension.

Academics as well as practitioners exalt the desirability of independent directors, but Hilb cautions: “…there is an important distinction between non-executive board members and independent board members” (Hilb, 2008:59). “All independent directors are non-executive, but not all non-executives are independent” (Merson, 2003:13 in Hilb, 2008:59).

f) Development of the FO industry

The financial FO capital is the family’s private wealth, often accumulated over many generations. European and Asian FOs of the first generation mostly evolved from the family business, where not only the principal but also other family members work. In those cases family offices were mostly seen as a continuation of the enterprise, but specifically used as a private investment vehicle.

Furthermore, a founder of an FO wishes to charter the family’s legacy for future generations, ensuring the continuation of their specific family’s cohesion.
Traditionally, the FO provides personal services, from managing financial assets to concierge services (Gascoigne, 1999). In the day-to-day operations, a traditional FO handles property management, accounting, payroll activities, tax and legal affairs. FOs show different organizational structures, with management either by family members, or by family external officers, or by outsourcing of various expert services. Frequently, FOs are managed by a combination of all three.

FOs, in most cases, are a successful concept for managing wealth and providing services to the family. In case of mismanagement the family wealth can be severely reduced or even destroyed. A recent example from Germany is the KarstadtQuelle AG. As a confidant of Madeleine Schickedanz, main shareholder of Arcandor, which holds KarstadtQuelle AG, Middelhoff became the chairman of the Arcandor supervisory board in June 2004 and its CEO in May 2005. He convinced Mrs. Schickedanz to sell main parts of the estate to increase the stock price (Der Spiegel, 2009). Middelhoff and his wife also held shares of an investment fund that bought real estate from Arcandor under price and then leased it back to Arcandor for unusually high rental fees. This contributed to bankruptcy for Arcandor, a scandal observed in Switzerland by significant media presence, and known as the ‘Karstadt Quelle AG’ affair (FAZ, FT and NZZ 2009-2010).

With an FO in place, the strategic decision making might have been better controlled, Middelhoff would not have had the opportunity to engage in such negligent, self-serving behavior and catastrophe may have been averted.

As with all enterprises, the topic of good governance is even more important to an FO since it not only has to answer to economic exigencies but should also mirror the cohesion between different family members, the beneficiaries. In case of feuds especially triggered by relationship conflicts, the FO can be torn apart: “…sometimes family members can be the problem not the solution” (Lladro-Roig, 2009).

FOs will function better if clear guidelines, direction and key players are determined in the framework of FO governance. In practice it has been observed that the linkages between the goal, mission, vision and identification of the family and the FO are extremely important to ascertain, in order to minimize conflict in the family and establish an FO that creates added value. This might appear trivial, but with patchwork families living across multiple countries, building relationships among relatives can be extremely challenging. A main aim of many families is to establish a legacy. In order to establish a legacy, common values have to be in place. This legacy can only emerge when these values are created and adopted and lived together, as a family. Governance
is the mediation tool used for interpersonal conflict and role conflict to decrease tension and create this added value.

Based on the research of Amit and Liechtenstein (2008), family harmony and happiness are the main goals when creating an FO. Therefore, the main task of the FO is to support the family in order to achieve happiness and harmony, which will facilitate their bonding and thus establish a legacy for the coming generation. This will create a feeling of fairness among the family members. The assumption is that when family members understand why decisions are taken, and feel that their voice is heard in the process they have the tendency to feel happier and therefore harmony is established. Understanding is necessary to create governance mediation tools that will allow a fair and transparent decision-making process, with the aim less conflict will arise in the family and subsequently in the running of the FO.

\[ i \] \textit{Starting Phase of an FO}

In the starting phase of an FO, the principal decides on managing the wealth for future generations. Most patriarchs want to establish a family legacy, and unlike family firm investment strategies, FOs need to plan long term. Planning for family legacy means working inside different time frames; 20 years is short term, 50 years is medium term and 100 years is long term (Hughes, 2004). However, this goal is extremely difficult to attain as goals of entities are usually addressed in a 3 year short term plan, 5 year medium term plan and 10 year long term plan. For example, when considering compensation of management, how can one develop a compensation system addressing long term planning if the future is and will always be uncertain and the key decision-making stakeholders will certainly not be present in 100 years? So the question remains how the long-term health of an entity can be established when key decisions are made in a short term state of mind. This question is particularly important for FOs since their explicit goals, trans-generational wealth creation and preservation, are by definition only realized over the long term. Implementation of clear governance guidelines, trust, empowerment of a board of directors and intra-organizational relationship building are steps in the right direction; however, it is still the responsibility of the individual family and its FO to adhere to these guidelines on a daily basis.
ii) **Continuation Phase of an FO**

“If children are forced into a family structure without the ability to change or leave it, they will spend their lives resisting inclusion in the family unit”

Source: (Jenkins, 2010:18)

The continuation phase of an FO follows the second generation. When the primary principal has passed on his mandate to the designated successor, specific intra-organizational relationship disputes can arise. Some of the most common conflicts appear as a reaction to a lack of communication, engendering lack of transparency, lack of appropriate knowledge and expertise. This situation results in insufficient implementation of prior terms and regulations thereby increasing the liabilities and risk for the FO. Internally this can also cause distrust, disloyalty, lack of know-how and loss of empowerment. It is important to create the suitable governance structure around the family. There is no one-fits-all model. Each generation is different and therefore the problems which present themselves will differ. A governance structure needs to be resistant enough to protect against threats, but flexible enough to adapt to change when necessary. The solution to engage all stakeholders in agreeing on a long-term structure is feasible when everyone contributes to, and informs the advisory process and structuring of the estate (Jenkins, 2010:23).

Enhancing communication among the stakeholders even before conflict occurs is the optimal precautionary measure. The mediation tools will then need to be implemented through the board of directors, which provides the framework to cope with certain difficulties that arise. Furthermore, in the strategic dimension the advantage of succession planning will be explained as another precaution and control of FO governance.

g) **Vision**

The FO’s vision grows from the specific family’s vision and its owner's strategy. This encompasses all FO governance dimensions and will be expressed ultimately in the specific FO’s strategy.

The vision of the ownership strategy needs to be adopted, lived, worked, as well as defined, by the FO board.
This is a combination of long term planning, ‘strive for a legacy’ and short term management of the daily operation. The vision needs to last throughout generations but also easy enough to be understood and adopted into the daily routine.

Baron De Rothschild wrote a list from A-Z in 1911 entailing “Recommendations to young men who wished to get on” which are as following:

**Adhered carefully** 10 details of your business.

**Be** prompt in all things.

**Consider** well then decide positively.

**Dare** to do right, fear to do wrong.

**Endure** trials patiently.

**Fight** life’s battles bravely, manfully.

**Go** not into the society of the vicious.

**Hold** integrity sacred.

**Injure** not another’s reputation or business.

**Keep** your mind from evil thoughts.

**Lie** not for any consideration.

**Make** few acquaintances.

**Never** try to appear what you are not.

**Observe** good manners.

**Pay** your debts promptly.

**Question** not the veracity of a friend.

**Respect** the counsel of your parents.

**Sacrifice** money, rather than principle.

**Touch** not, taste not, handle not intoxicating drinks.

**Use** your leisure time for improvement,

**Venture** not upon the threshold of wrong.

**Watch** carefully over your passions.

**Xtend** to everyone a kindly salutation.
Yield not to discouragement.
Zealously labor for the rights.

Source: (Freisinger, 2012:34)

Baron Rothschild is vision describes a rule book that is easily understood and to be followed for the family legacy and it should be noted that his list of recommendations proved the key for preserving the wealth of the family.

More recently a family’s vision, their moral and ethical standards have also directed their choice of investment allocation. Transferring their family’s philosophy to the practical, the financial level, their vision is lived and reenforce also their FO’s vision.

In the same way, FO governance needs to be understood, accepted, and adopted by the family and by the other stakeholders of the office. FO governance, as the board’s first responsibility, needs to evolve from theory to practice, as a parameter for the FO operations and interpersonal relationships.

As task and relationship conflicts can severely damage family harmony and, by extension, the Family Office, it will be demonstrated how a board of directors while applying the structures of FO governance will also be the force mitigating and resolving those conflict situations. This they do through transparency, due diligence, consensus by alignment of all stakeholders, and last but not least, through structured communication channels which also facilitate risk management and allow for a concise and objective evaluation of the FO and its stakeholders.
2.2 Keep it Strategic

‘New Corporate Governance’ suggests that strategic direction and strategic monitoring are central functions of the board of directors (Hilb, 2008:14). With the introduction of ‘New Corporate Governance’, benchmarks can be developed for the oversight and guidance of all stakeholders. Providing such criteria allows greater transparency and therefore increases the amount of structure in the entity.

The ‘New Corporate Governance’ concept demonstrates that board of directors which have significant influence on the determination of their own compensation, and therefore portray a value of fairness in their compensation, have more incentive to add strategic value, and hence are more productive than boards which do not.

Extending this principle to FOs, the empirical part of the dissertation will analyze whether boards of directors in FOs that are involved in the decision-making of their compensation also demonstrate a higher level of involvement in the strategic development, strategic direction and strategic monitoring of the FO.

Scholars such as Greene, (2010) have determined the importance of board diversification by the introduction of different fields of expertise at board level. This research on board strategic involvement concerning conflict and consensus has been addressed by various scholars (Davis, 2003); (Pettigew & McNulty, 1998).

Strategic direction and strategic monitoring are extremely important functions and it should be ensured that the board of directors finds a common culture, one that values a broad range of skills and abilities and strives for constructive resolution of conflict. This is significant in view of the complexity and scale of modern organizations. Diversity however also holds some potential for conflicts, because people from different backgrounds and cultures will have different perspectives on the issues and challenges confronting the organization. This situation proves the need to establish a culture of trust throughout the FO, best accomplished under the leadership of the board of directors, to solve negative conflicts stemming from diversity, but using diversity’s indubitable advantages for the strategic goals, of the financial as well as the human capital of the FO.
2.2.1 Strategic Direction

“Like a missile flying toward a specific destination, frequent, small corrections increase the quality of the flight, reduce the amount of energy needed to provide the change in direction, reduce the risk of ill-timed intervention, and substantially increase the likelihood of the missile arriving at its chosen target.”

Source: (Daniell, 2008:50)

The strategic dimension of FO governance starts with the strategic composition of an integrated board. Strategic in the targeted and complementary board composition, FO governance also relies on the advantage of targeted board diversity.

The strategic direction that the FO takes is not the exclusive prerogative of the board of directors. Although they are essential in directing the successful operations of an FO, close cooperation with and input from all other stakeholders is obligatory.

The roles of the stakeholders of an FO continually overlap, thus causing potential conflict of interests in the management of the FO. However, if the stakeholders are aware of possible conflicts of interest and find consensus by mitigation and conflict resolution, the operation will have a competitive advantage. This will also positively impact the direction of the FO. Figure 10: Stakeholders of ‘New Family Office Governance’ represents each group of stakeholders’ interest that concur and that differ. The challenge is to identify problems and mitigate conflicts constructively so that all agendas of the individual stakeholders overlap into alignment.
According to Jaffe (2011:14): “The board should oversee the creation of a well-defined strategic plan” He continues to argue that a growing trend is to have the board of directors actively involved with management in the strategic plan (Jaffe, 2011:14). In determining the strategic direction of an FO, the board of directors should precondition the following three components: strategic direction through leadership, strategic direction through education and strategic direction through compensation. For successful FO governance, a well-structured representation of all three components constitutes the starting point for the strategic direction.

\textit{a) Leadership}

The term governance has evolved from the original Greek meaning of directing to ruling and leading. Ergo, the board’s leadership implies the ability of directing, and demands much more than a certain charisma or a position gained by ownership or
investment. Leadership is based on different competences which ideally are represented in holistic combination.

Subject competence is of major importance and shown by a proven track record. Personality competence refers to a person’s ability to integrate, their independence, open-mindedness and also implies resistance. Social competence, especially appreciated in a ‘compromise culture’ such as Switzerland, goes together with multicultural competence. This feature becomes indispensable in a globally active enterprise. It denotes openness, the ability to listen and receive constructive input and the willingness to coach others. This can be seen in family leadership of the first generation, in this case of the wealth’s founder, whose position is usually well earned by hard work and crowning success and therefore unquestioned and undisputed. But this stability usually only exists up to the point when the following generation comes of age, and when the question of leadership succession sooner or later has to be settled. Now the family cohesion, harmony and even preservation of wealth can be threatened if no good family governance exists to provide clear guidelines for succession in the family leadership and consequently in the FO.

Unfortunately, many great fortune builders seem to be psychologically so insecure in their sense of self-worth that they cannot abide the thought of letting go the reins and handing over their leadership status. Feud in FOs cannot only tear apart the entire family but also provoke cases of litigation, which may lead to unwanted publicity, frozen assets and even result in final wealth atrophy.

A wise family leader will therefore consider his “exit strategy” for the transfer of leadership. But this demands a long process of motivating and engaging the younger generation, of educating them properly and of grooming them for their later responsibilities, teaching them that wealth carries also obligations for the beneficiaries, to the family as well as to society.

Good family governance based on the family leader’s vision ‘…should be multigenerational in nature and unchanging in context’. “Like the North Star it should provide both a long term direction and navigational assistance ‘above the horizon’ for “both senior leaders and junior members of the family, and from any perspective and in any situation or location” (Daniell, 2009:148).

Leadership of the board is particularly important as the needs of any family are complex, and the needs of the wealthy multi-generational family are more numerous and more substantial than those of an average family. The board of directors should take a leadership role placing and empowering competent management. Jaffe (2011)
suggests that the board of directors take an active oversight of management. In addition, he specifies that the board of directors should take an active leading role regarding the succession process, not only for the family but also for the board. This is recommended because the board of directors often acts as mentor for young family members as they move into positions of responsibility and therefore the directors know the family and their expectations well (Jaffe, 2011:15).

As leadership constitutes one of the most important elements of strategic direction in an FO, the task to designate appropriate succession during its multi-generational life cycle is daunting, particularly since problems and opportunities need to be managed before they arise, and need to be built into all aspects of family leadership (Daniell, 2008:150). These same challenges are encountered by the FO’s board where succession planning should be part of the board process. One of the greatest challenges is formulating mission statements according to the family values and mustering the highest level of family support.

In order to strive for a common understanding amongst all stakeholders, the leadership of the FO needs to create a common culture and shared beliefs based on the key element of communication. Communication is values and supports the human connection (Jaffe, 2011:6). Therefore, strategic direction through leadership also means encouraging communication, preferably structured communication amongst the stakeholders. The board of directors could emphasize the advantage of organizing activities and, events in the form of educational programs or retreats to enhance and foster cross-communication.

Family members who feel their voices are heard are significantly more likely to support the direction chosen by the entity (Jaffe, 2011:7). As long as stakeholders trust that their opinions are respected, they are more likely to support certain strategic directions taken, even if they might not agree with that decision entirely.

Daniell (2008:153) underlines the importance of psychology of leadership. He refers to psychologists who study behavior growing out of attitude resulting in the production of beliefs. When creating the alignment of an entire family, the attitudes and beliefs of the family members need to be studied and discussed in an atmosphere of trust. It should be clear that dissent, openly and objectively voiced and then debated, need not escalate into conflict, but may “clear the air” and then facilitate consensus.

This can be done by the following three-step strategic process, leading to the ideal outcome of family alignment consensus between all FO stakeholders facilitating positive wealth strategy preservation and transmission.
Ideal Outcome of the Wealth Strategy Process

<table>
<thead>
<tr>
<th>Wealth strategy process</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belief</td>
<td>All members of the family believe that the family is special and that each member should act in a manner consistent with the long term best interests of the greater family. A second beneficial belief is that the approach taken in addition to the content of the family’s documents provide a fair and valuable guide for the future family.</td>
</tr>
<tr>
<td>Attitude</td>
<td>All attitudes should be supportive of the process and the content of the strategy, and positive about the long-term value of maintaining the family wealth, even at the cost of some short-term individual sacrifice.</td>
</tr>
<tr>
<td>Behavior</td>
<td>All behavior needs to be constructive and consistent with the guideline established, with each individual contributing to the development of the family and the strategy of preserving and enhancing family wealth across generations. Everyone should strive to avoid counter-productive behavior.</td>
</tr>
</tbody>
</table>

Table 4: Ideal Outcome of the Wealth Strategy Process

Source: Daniell (2008:153)

Another benefit of honoring leadership skills is the increased harmony achieved among family members and FO stakeholders. As litigation and divisions within the family leads to increasing conflict and inevitably to substantial reductions in family wealth, it becomes evident that the family’s attitudes and behaviors impact not only on their personal relationships but also, quite concretely, on their financial success in the long term (Daniell, 2008:153). An FO board with a strategically targeted composition and leadership skills will be capable of navigating the FO around these threats by strategic direction. Another element of leadership is the concern for education to continually foster knowledge, and achieving cohesion by informed consensus amongst cross-generational stakeholders of the FO.
Finally leadership competence per se requires the prospective leader of the FO as well as the board to be a role model for others, a visionary who is resourceful, persevering, and capable of recognizing, anticipating, and solving problems.

**b) Education**

“Educate your children to self-control, to the habit of holding passion and prejudice and evil tendencies subject to an upright and reasoning will and you have done much to abolish misery from their future and crimes from society.”

Source: Benjamin Franklin (1706 - 1790)

Education in the financial FO operation can work as a family governance tool creating unity and family cohesion by informed knowledge engendering consensus. For example, when each family member is educated about taxation, a conflict discussion about why the great aunt cannot buy another house in Aspen might be avoided. She will then understand that, although she is extremely wealthy, she cannot afford the exorbitant taxes that would be due.

Education as a means of strategic direction has proved an excellent way to facilitate the next generation’s involvement in their FO. Some FOs offer annual or quarterly seminars for family members. Generally, the stakeholders become more knowledgeable about the entity and each other through education and training sessions. For example, the Ahlstrom family, with 200 members, instituted formal training sessions aimed at family members in their twenties and thirties, to groom the younger generation (Magretta, 1998:119).

The CEO of the Ahlström enterprise, Krister Ahlström, furthermore outlined: “The sessions gave me the opportunity to understand the younger people’s mood… One part of leading is testing the waters. Another part is creating a shared vision by reacting and spending to the family’s general mood” (Magretta, 1998:119).

Daniell (2008:84) considers education as a tool for the development of imperatives for the next generation, and as a great investment that can advance individual family members and the family as a unit. Through education, a better understanding of strategic planning is gained and therefore, a more comprehensive unity in the FO can allow alignment of stakeholders’ specific objectives. This desirable situation of
alignment and consensus will lead to a higher satisfaction level of all stakeholders with their FO.

Daniell (2008:134) suggests that a proper foundation of knowledge can be built through in-house seminars organized by the FO for stakeholders but also by specific programs offered by private banks and targeted to the next generation. Such generational programs, leading eventually to short-term internships or full-time employment opportunities, offer a shared experience for children of similar background and issues, and create a valuable network to connect them in the future.

In the Ernst and Young report of 2011 “Succeeding for Generations”, leaders of the world’s most enduring family businesses describe the legacy they seek to pass on to the future generations. As diverse as they are in their origins, geographically and culturally, they all realize the importance of planning and preparing for optimal succession.

Barcelo Vadell, from the third generation of the Spanish Barcelo Corporations, explains: “The biggest challenges are usually the transition periods. It is always better for it to be a process and not an event. The most important thing we can do to prepare the next generation is instill in them our core values” (Ernst and Young, 2011:62).

Simon Berry, of England’s Berry Bros and Rudd, affirms: “Succession can be tricky, and sometimes quite painful, so clarity is the main thing” (Ernst and Young, 2011:67).

Koos Van Oord, chairman of the board for this Dutch family concern, counsels to “find the right balance between the family side and the business side. If there are problems with either of these aspects, both will suffer” (Ernst and Young, 2011:64).

The Van Oords Family Association, open to all family members over 18 years, currently counts 129 members. It has its own communication channels including a website and newsletter and organizes social and management training programs, loans to family entrepreneurs and runs their charitable foundation.

Koos Van Oord cautions: “Any family shareholder should consider the company not as a possession but as a custodianship that will eventually be passed on to someone else” (Ernst and Young, 2011:85).

For Baroness Ariane de Rothschild, the key word is ‘preparation’ for her four young daughters: “we frequently discuss family business with them. They are aware that in later life they must undertake duties and responsibilities… we want them to choose freely their lifestyles and their careers, bearing in mind that they have a name, a background and a memory to honor” (Ernst and Young 2011:17).
Bangalore patriarch G. M. Rao, founder and chairman of the eponymous GMR Group legalized in November of 2000 India’s first “Family Constitution”. His mantra for success, which he also communicates to his family and his FO, instructs:

Embrace change
Create win-win situations
Be fearless
Convert problems into opportunities
Excel at what you do
Give back to society
And be humble

Source: (Ernst & Young, 2011:89)

The Rao family, with expertise in the banking sector, started in the 1980s their “family consolidation” as they realized that most of the distressed businesses and non-performing assets resulted from family dispute (Ernst & Young, 2011:90). Particularly innovative, G.M. Rao employed mentors for his sons and later created a program for his sons to rotate through various positions in his enterprises, always with performance appraisals and accountability. Creating a structure based on the family values as understood by each family member, his son-in-law, Bommidala continues this legacy, stating: “Human capital is immeasurable. You can quantify money; you cannot quantify human capital” (Ernst & Young, 2011:91).

All those great and successful entrepreneurs underline the importance of family cohesion for the family’s legacy. Still, they all stress that ownership and control while being a family member is best earned and not automatically given as entitlement. When ownership and control has to be earned by merit and proven capabilities, preferably acquired outside the family enterprise, as well as a sterling reputation, all family members and the entity will benefit.

Italian company De Agostini’s board of directors has devised official criteria for family members entering the company. A special committee evaluates the career development and qualifications of the fourth generation shareholders. Prerequisites include a solid degree, foreign languages and at least five years’ experience in another company. “They must meet strict requirements and demonstrate they can stack up well against outside competition” (Ernst & Young, 2011:41).
The different educational and recreational programs offered to FO stakeholders pursue two goals: especially for the younger generation, educational programs teach at least basic financial and business know-how. Recreational programs strengthen family cohesion and provide the opportunity of getting better acquainted with all stakeholders of the FO. This will facilitate the intra-organizational relationship and prove to be beneficial in times of succession or transition periods. The communication programs address relationship problems or possible conflict situations by showing the FO stakeholders the advantage of ongoing communication, constructive dissent, and positive conflict resolution strategies.

Apart from the benefit these programs have they also help to intensify the inter-generational dialogue and reinforce the family legacy, which in turn is also beneficial for the non-family stakeholders.

\textit{c) Composition}

If a family decides to escape the old cycle, from ‘rags to riches to rags’, the behavior patterns that pushed the first generation to create the wealth, namely striving for success, willing to learn and eager to work, must be continued. It is important that the following generations stay as determined as the first generation if they are to build on the family’s wealth. The starting phase of an FO identifies the visionary characteristics that are often observed in a first generation and how those attributes can be conserved for the generations that follow.

Lowenhaupt and Trone (2012: 90) suggest that FO management often evolves from a close relationship between the principal and the officer or an employee of an active family business. This close and trustful connection built over time is based on proved reliance. But this plus has the minus side of fossilized systems, organization and operations which are very difficult to amend or change. The danger of such a scenario is the neglect or absence of FO governance.

“The easy fixes are efficiencies; the hard fixes are making the family office meet the family’s needs” (Lowenhaupt & Trone, 2012:90).

With the board of directors as the pivot for the strategic directional, monitoring and controlling function, the FO can be structured top-down. Board committees have the tendency to be formed from internal management as well as external professionals with expertise in the relevant industry or the market. If the FO sees the need for a
certain expertise, such as legal consultation, the legal knowledge on the board could fulfill such requirements. However, if the board gets too heavily involved in the daily operation this can cause constraints within the FO, and lead to confusion between the functions and obligations of management and the board and to confusion regarding respective responsibilities.

An assembly of only internal executive directors and family members will result in a board not suited for its primary directives. The controlling function, the fourth dimension of the ‘New Family Office Governance’ framework, will be negligible and biased, therefore worthless. In order to successfully determine the strategic composition of the board it is important to understand the mission, vision and values of the FO. The family needs to be certain what they want the FO to achieve and consequently choose the right board members. If an FO has the sole purpose to act as an administrative FO, the expertise necessary is different than that of an FO that provides a full in-house service spectrum. The challenges of the composition of an FO vary through inception to closure. The six most important stages when an FO may experience crucial change are illustrated in figure 13: The Spiral Concept.

“Sound process removes family dynamics, allows delegation of responsibilities, and gives every family member both the comfort of knowing that affairs are being managed and the freedom to live his or her life to the fullest” (Lowenhaupt & Trone, 2012:111).
As each business lives through a life cycle of emergence to decline, so do FOs. The reasons for a decline of FOs, however, are somewhat different to that of businesses. Each of the above stages contains inherent problems which, if not dealt with, result in the failure of an FO. A successful composition of the board offers a competitive advantage when external factors bring challenging times for the FO, or during generational changes.
If the FO principal establishes a board at the inception of the FO, apart from the added advantage, a strategically composed board will from the start guarantee good governance. But even though the later establishment of a board at any juncture is feasible, it should nonetheless at least be in place before a trans-generational succession phase.

Lowenhaupt and Trone (2012:68) indicate “if we are looking at multigenerational wealth, we must recognize the role of investment in education. We must try to connect our children to their wealth by allowing its investment to come across as real and productive [rather than hocus-pocus magic].”

Family member representation and independent directors are two key choices for the composition of the FO board. Among the different stakeholder configurations, board composition is one of the most fundamental parts of an FO (Voordeckers, Van Gils, & Van den Heuvel, 2007:138). Only through clear delineation of the stakeholders’ tasks and functions, can consensus and governance be achieved and maintained by a strategically targeted composed board.

d) **Stakeholders of an FO**

In some FOs, it is indeed the most respected senior professional that plays the central role in all deliberation and decisions taken by the stakeholders. However, Daniell (2008:102) states that in some families the FO is run by a person relatively junior in experience or stature, mostly known as an administrator or executor of decisions taken by others. As Daniell (2008:102) observes, this allows the junior professional to earn the respect and knowledge while understanding and learning the intentions and objectives of the family.

The boards of family businesses, SME (small to medium enterprises) as well as FOs are often constituted from family members and also close family friends.

“Whether developed in childhood, at school or university, in the military service, or in business or social circle, friends can play a major role in family deliberations. Importantly, friends—especially those who have substantial capital and a long personal history with the family—can be rare sources of honest, sometimes painful, advice on strategy, investments, life choices, and other key issues. Giving honest advice is especially difficult for those who “work for” the family. Friends, on the other hand,
can deliver tough messages, without the fear that their careers may be jeopardized by taking a contrary view” (Daniell, 2008:102)

The reasons for choosing outsiders vary; not every family has a member with the necessary expertise or interest. Several FOs do not allow their beneficiaries to be involved in the FO operation for exactly those reasons, and also to avoid power struggles inside the family. Nevertheless, hiring external employees has its own disadvantages: for instance, continuity and confidentiality are more difficult to maintain with family outsiders.

Regardless as to whether the stakeholders are internal or external, each of them plays an important role and naturally has individual expectations of the FO. The better the cooperation between stakeholders, the more successful the FO will become.

Composition of the board of directors usually combines a representation of internal and external stakeholders. In most FOs, the board of directors assembles the most senior and experienced family members. Cross-generational involvement will determine different board structures as seen in Table 5: Family Generations.

i) The role of the Stakeholders

The following section identifies the role of stakeholders in the cross-generational evolution.

Typically, in the first generation, the entrepreneur and founder of the FO takes on the functions of the business-owner, the family role model, the chair of board of directors, if established, and management. Table 5: Family Generations, illustrates, the change throughout the development of an FO over generations.
Family Generations

<table>
<thead>
<tr>
<th>Stakeholders/ Generational Development</th>
<th>First Generation</th>
<th>Second Generation</th>
<th>Third Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>Start-up Couple</td>
<td>Team-work</td>
<td>In heritage</td>
</tr>
<tr>
<td>Owner</td>
<td>Sole owner</td>
<td>Partnership</td>
<td>Consortium (Family Trust)</td>
</tr>
<tr>
<td>Entrepreneur</td>
<td>Pioneer Phase</td>
<td>Growth Phase</td>
<td>Maturity Phase</td>
</tr>
<tr>
<td>Board of directors</td>
<td>Informal Board (no supervisory board)</td>
<td>Family &amp; Compliant (supervisory board)</td>
<td>Board as a family unit, management unit and controlling unit</td>
</tr>
</tbody>
</table>

Table 5: Family Generations

Source: (Gersick, Davis, McCollom Hampton, & Lansberg, 1997:106)

The board of directors, due to their knowledge and familiarity with the stakeholders and the entity’s operation, are in a position to direct, manage and control mitigation when conflict arises.

Apart from the mandate of wealth preservation, the FO is also expected to provide services to support the individual beneficiaries while simultaneously achieving satisfaction amongst the stakeholders. With mediation tools to solve conflict and intra-organizational relationship-dispute, overall satisfaction presumably may increase. Considering that FOs operate internationally, often with multiple offices across continents, certain legal structures do not imply the necessity of creating a board of directors. As a result, empowerment of the board of directors is questioned. The main criticism suggests that a board of directors is just a formality to comply with legal requirements, referred to as ‘phantom boards’ (Benson, 1991:325).

But as the ‘New Family Office Governance’ framework stipulates, the FO board, far from being a ‘puppet board’, but empowered to holistically direct and control FO operations, will create a competitive advantage for the FO and all its stakeholders, and considerably augment their satisfaction level.
Naturally this expectation demands a board strategically composed as to its members’ expertise, professional as well as personal competencies and their ability to complement their individual skills “by a variety of complementary roles” (Hilb, 2008:83).

\textit{ii) Mix of FO functions-priorities}

This section studies the basic functions-priorities of an FO. Table 6: FO Functions-Priorities illustrates the importance of activities and scope of services identified by the Wharton Global Family Alliance Benchmark Report. This table represents the percentage of respondents that indicated certain activities and scope of services in their FO and their rating. Moreover, the activities and scope of services as well as the level of importance is shown in comparison to the geographical location of the FO.

The report illustrates that aggregating of information and reporting is viewed as more important in the Americas, but that a higher percentage of European SFOs indicate information aggregation and reporting as a scope of service for their SFO.

Moreover, an activity such as estate planning holds the same level of importance in different geographical locations, but a significantly higher percentage of respondents in the Americas indicated estate planning as a function in their SFO.

Activities such as financial administration, tax- and legal services, relationship management, personal or psychological counseling, risk management or insurance and concierge services did not show a difference in function-priority ratio in terms of geographical location.

From these two examples of geographically diverse regions it can be deduced that globally the functions of an FO are basically the same but vary slightly in importance. This illustrates the universality of FOs and this dissertation suggests that the slight variance of importance of functions can possibly be explained by cultural differences.
### FO Functions-Priorities

<table>
<thead>
<tr>
<th>Continents/Activities and Scope</th>
<th>Americas</th>
<th></th>
<th>Europe</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Importance</td>
<td>% of respondents</td>
<td>Importance **</td>
<td>% of respondents</td>
</tr>
<tr>
<td>Asset allocation</td>
<td>1</td>
<td>52%</td>
<td>1</td>
<td>57%</td>
</tr>
<tr>
<td>Managing selection &amp; monitoring</td>
<td>1</td>
<td>43%</td>
<td>1</td>
<td>40%</td>
</tr>
<tr>
<td>Information aggregating &amp; reporting</td>
<td>1</td>
<td>34%</td>
<td>2</td>
<td>41%</td>
</tr>
<tr>
<td>Education of family members</td>
<td>2</td>
<td>29%</td>
<td>3</td>
<td>23%</td>
</tr>
<tr>
<td>Estate Planning</td>
<td>2</td>
<td>53%</td>
<td>2</td>
<td>31%</td>
</tr>
<tr>
<td>Banking</td>
<td>2</td>
<td>34%</td>
<td>2</td>
<td>44%</td>
</tr>
<tr>
<td>Financial administration</td>
<td>2</td>
<td>40%</td>
<td>2</td>
<td>40%</td>
</tr>
<tr>
<td>Legal services</td>
<td>2</td>
<td>47%</td>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>Tax services</td>
<td>2</td>
<td>45%</td>
<td>2</td>
<td>36%</td>
</tr>
<tr>
<td>Relationship management</td>
<td>2</td>
<td>21%</td>
<td>3</td>
<td>24%</td>
</tr>
<tr>
<td>Personal/psychological counseling</td>
<td>3</td>
<td>12%</td>
<td>3</td>
<td>13%</td>
</tr>
<tr>
<td>Risk management/insurance</td>
<td>3</td>
<td>34%</td>
<td>2</td>
<td>33%</td>
</tr>
<tr>
<td>Concierge services</td>
<td>3</td>
<td>19%</td>
<td>4</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Extremely important=1, not important =5**

Table 6: FO Functions-Priorities

Source: FO research project database (2007)

The rating of the different FO functions as to priority accorded further supports the advantage of diversity in expertise and skills for the FO’s board members.

It is a prerequisite to understand an FO’s needs when establishing the board of directors. Ideally, only members who represent these various areas of expertise should have a seat on the board. It is imperative to create an active board to strategically direct, oversee, and monitor the main scope of services knowledgably. Also, the
stakeholders of the FO need to evaluate and rate the importance they accord to specific activities and services to select directors with relevant expertise, thus acquiring the board know-how suited to their FO’s requirements.

Another additional advantage of “targeted diversity on the board team” and complementary composition “based on board roles” recommended by Hilb “allows the interactions between board members and members of the top management team to be shaped into a partnership” (Hilb, 2008:84).

Such a board team will also prove itself a competent and expert partner for other FO stakeholders, especially the beneficiaries and the principal.
2.2.2 Strategic Monitoring

As with strategic direction, strategic monitoring of an FO involves the close cooperation of all stakeholders. Added value is gained if the board of directors interacts at all levels to ensure the success of all aspects of the FO operation. Figure 12: ‘Stakeholder Circular Strategic Monitoring of an FO illustrates that strategic monitoring also includes monitoring of the stakeholders. The principal appoints the board of directors, who in turn strategically direct and strategically monitor the officer. The officer provides information and guidance to the principal and the beneficiaries. At times, the officer also assumes the responsibility of strategically directing and by strategically monitoring the beneficiaries who are, either through educational programs or advising beneficiaries planning a new business. Some family offices establish a committee that acts as a supervisory body for new ventures that family members want to pursue.

For example an FO located in Zurich, Switzerland which serves an Asian family, who are living mainly in the UK, strategically directs and monitors new venture ideas using the following steps:

The beneficiaries need to present their business plan to the board of directors. On the board of directors sits the officer (who is an external stakeholder), a trusted lawyer of the family or a banker.

When the board of directors sees potential in the venture, the officer undertakes the task of analyzing the venture again. This may include traveling to the destination where the venture will take place to collect first hand information.

If the officer also agrees to the venture, a loan by the FO is given to the beneficiary. The investment is then checked annually in order to strategically direct and strategically monitor the endeavor with the help and under the supervision of the board.

Such a monitoring mechanism has proved to be extremely valuable as the level of risk is significantly reduced, and continuing checks allow evaluation and eventual reorientation.
In order to comprehend the strategic context of an FO, it is important to understand that, according to Hilb (2009:77), there are four preconditions necessary for governance, for the board of directors to function effectively in the implementation, development, and control of an FO. The four preconditions are: diversity, trust, networking and vision.

The board of directors functions as the directing and monitoring mechanism of the FO. For the board to work effectively and in order to assess the effectiveness of leadership the four preconditions need to be integrated, with their success measured in relation to the stakeholder groups.
**a) Board Diversity**

An effective board of directors needs to be composed of a target-oriented and diverse team. It is important for the board to assemble directors whose expertise complement each other. In other words, board composition should create a competitive strength which ideally should mirror the FO operation. Furthermore, a board should be composed of directors who are capable of an overall perspective and others who are more detail-orientated.

Jent and Hilb (2003) created ‘the Diversity Optima Disk for Board of Directors. The Diversity Optima Disk consists of three layers. The disk is designed to mirror different skills to create a complementary construct. In identifying the different skill sets, each layer needs to be examined. The concept of the Diversity Optima Disk for Board of Directors has been adopted to fit the board requirements of FO.

**i) Diversity Optima Disk: The outer layer**

Figure 14: ‘Essential areas of board know-how in an FO with regard to main activities and scope of services that need to be met’ illustrates the various areas of competences the board of directors needs (Hilb, 2008:82). Strategic monitoring demands that subject-specific areas of competence must be represented on the board in order to enable the board to successfully fulfill their strategic direction and strategic monitoring functions.
The essential areas of board expertise desirable in an FO prove the value of diversity, of the “strategically targeted composition of the board team” (Hilb, 2008:69).

**ii) Diversity Optima Disk; The middle layer**

The middle layer: illustrates the necessary board team roles, which determine the duties of the different board members.
A board of directors needs to oversee far more activities than individual members of the board, especially for a small entity like an FO. Therefore it is important to cluster the board roles so that a board member with a specific skill can direct and control a variety of tasks. The diagram below identifies the board-team-role concept.

**Figure 14: Board Team-Role Concept**

Source: Hilb (2008:75)

Since the board of directors of an FO needs to adapt to different tasks, diverse expertise is necessary. Realistically, with three to five board members it is inopportune that each board member only masters one field of expertise. Therefore it is imperative
that the directors acquire the necessary skills to fulfill different team-roles. This can work with three board members when, for instance:

Board member 1 has the role of Board Strategic Designer, Board Creative Thinker, and Board Action Implementer

Board member 2 covers the function of Board Networker, Board Team Sponsor, and Board Organizer

Board member 3 simultaneously works as Board Controller, and Board Critical Thinker

iii) Diversity Optima Disk; The inner layer

The inner disk illustrates the comparative strengths of social data, ensuring that the board collectively illustrates a sample of the entity it represents and not a uniform identical cluster.

Fields and Keys (2003) stated in the NACD Blue Ribbon Commission report the creative advantage of directors on a board with diverse backgrounds, who could offer their unique experiences and perspectives. Apart from the diversity of professional skills, ethnic diversity may provide valuable understanding of other cultures and economic behavior, which would be especially helpful in the emerging markets of Asia, South America and Africa.

Only gender diversification remains, which except for Scandinavian countries, is a relatively untapped asset for improving governance effectiveness as well as shareholder value. According to research by Catalyst (2007) Fortune 500, companies with a higher representation of women on their boards outperformed other companies on three key financial measures:

Return on equity $+53\%$

Return on sales $+42\%$

Return on invested capital $+66\%$

“Diversity as Strategy”, Harvard Business Review 2004, discussed case studies to prove the impact of women and minorities in key positions. For example, IBM sales increased from $10$ million dollars in 1998 to $300$ million dollars in 2003. Research
show that the drastic increase in sales occurred due to an increase of 13,000 women and ethnic minorities in the workforce through a merger.

This trend can be seen globally. However, although women comprised more than half of the US population in 2007, they only held 17% of the board seats of Fortune 100 companies. In specific reference to women, enriching the diversity on the board will enrich all stakeholders of an FO. Therefore, diversity on the board, encompassing gender diversity, supports not only the cultural emancipation of women, but offers a definite asset for sound business strategy.

\[ b) \text{ Culture of Trust} \]

“Trust is an emotional skill, an active and dynamic part of our lives that we build and sustain with our promises and commitments, our emotions and integrity.”

Source: Jenkins (2010:10)

Trust has for some time been relegated as a social nicety in the business world. However scandals such as Madoff’s Ponzi scheme and other frauds have been a wake-up call. There are several high profile cases of where client’s assets have been mishandled or investment advisers selling their clients financial packages, derivates etc. while at the same time been hedging against them for their own company’s profit. Today trust is again seen as a highly valued commodity. This element of trust is indispensable in any well-functioning enterprise, even more so in the family-oriented climate of an FO where the interaction between the different stakeholders, whether principal, beneficiary, executive officers or directors of the board, even employees of the office, is more personalized than in a purely economic concern.

“The austere basis of trust… is just reliance… It is important to this process that a decision to trust can be made in advance, before there is a long history of trustworthiness” (Blackburn, 1998:34).

Blackburn, a professor of philosophy at the University of North Carolina sees trust as essential. He implies that being trusting and trustworthy are considered valuable social and personal attributes. This fact serves to motivate the relevant behavior, since people want to see themselves in a positive light.
But Professor Blackburn also warns “the air of paradox may partly depend upon treating belief and trust too much as all-or-nothing states” (Blackburn, 1998:41). And “reliability is the essential function of the practices of promising and contracting” (Blackburn, 1998:33).

Reliability and cooperation are the pillars on which the FO can build its culture of trust.


The authors distinguish “three basic levels of trust: trust in technical competence know-how, trust in ethical conduct and character and trust in empathic skills and maturity” (Pompian, 2009:227)

An atmosphere of trust facilitates daily operations, through to important discussions on strategic allocation. Trust prepares the ground for the positive resolution of conflicts, task related or personal. Furthermore, it permits monitoring, risk management and auditing, internal as well as external, to be viewed as positive features of good governance, not as a sign of distrust.

But as Lenin said: “Vertrauen ist gut, Kontrolle ist besser” which translate as: trust is good, control is better.

“Paraphrasing Stephen M.R. Covey from his bestseller, ‘The Speed of Trust’, ‘trust’ has become the global currency for the wealth management industry” (Lowenhaupt & Trone, 2012:206)

In this case, trust and monitoring, or control, are not exclusive opposites, but make excellent good sense as even the best strategies, investments, or decisions have to be monitored and periodically reviewed in order to evaluate their impact and decide, fully informed, on future challenges. Trust based on personal appreciation and on proven professional competency also contributes enormously when designing an ‘exit strategy’, and successfully transferring positions whether on the board, in management or as principal of the FO. By regulating harmoniously all questions of succession, power struggles or even a power vacuum can be avoided. However, the distinction between impersonal trust and personal trust needs to be considered (Braithwaite & Levi, 1998:296). When implementing a strategy, trust is the underlining factor assuring that decisions are made with the best interest of stakeholders in mind.
Clarke (2004) identifies two sides to trust; truster and trustworthiness and the side of the trustee. The relationship between the truster and the trustee interacts by evaluating two compiling sides of trust; personal and professional. The personal side of trust is based on the bond forged by repeated interactions. Mainly this type of trust is built on positive recollection throughout time. Professional trust is built on competency, in particular through proven past achievements and gained reputation. Eddleston, Chrisman, Steier, & Chua, (2010) use the term ‘calculative trust’ as developing personal trust. They refer to interpersonal trust as calculative trust and knowledge-based trust as professional trust. In the operation of an FO it is essential that both types of trust are present.

Powell (1990) distinguishes varieties of trust which operate as forms of governance based on cooperation. Forming a culture of trust is at the heart of any governance.

<table>
<thead>
<tr>
<th>BOTH…</th>
<th>…AND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Openly express opinions</td>
<td>avoid violating others</td>
</tr>
<tr>
<td>Raise problem issues in good time</td>
<td>suggest solutions</td>
</tr>
<tr>
<td>Delegate work to managers with appropriate competences and levels of responsibility</td>
<td>retain responsibility for direction &amp; control</td>
</tr>
<tr>
<td>Demonstrate confidence in top management</td>
<td>constructively scrutinize top management activities</td>
</tr>
<tr>
<td>Keep the board’s own objective in sight</td>
<td>safeguard the interests of the entire firm</td>
</tr>
<tr>
<td>Make decisions on the board</td>
<td>stand by the board’s decisions when they are challenged</td>
</tr>
<tr>
<td>Acknowledge the achievement of the board and top management</td>
<td>support promising new areas of board and top management work</td>
</tr>
<tr>
<td>Work constructively with top management</td>
<td>maintain strategic control of top management work</td>
</tr>
</tbody>
</table>

Table 7: Board Cooperation Rules

Source: Hilb (2006:84)
The importance of a culture of trust becomes evident when studying the breakdown of formerly successful companies: “...a close examination of these boards has revealed no broad pattern of incompetence or corruption. In fact, the boards followed most of the accepted standards of board operations... However, what distinguishes exemplary boards isn’t just following key structural tactics, but rather creating robust, effective social systems. The key to generating such a team includes creating a climate of trust and candor, fostering a culture of open dissent...” (see Sonnenfeld, 2002:106 in Hilb, 2009:94).

c) Conflict situation

Only by aligning the different requirements of the stakeholders involved can these challenges be met and a culture of trust created to enable a forum for constructive criticism. Should this not be accomplished successfully, a power-struggle may occur, leading to conflict situations.

A great risk to the preservation of family wealth is dispute and conflict within the family itself. Daniell (2008) identified financial and psychological family schisms “...litigation, forced asset sales, lack of cooperation in investment and business operations, or break-up of family businesses can add financial loss to the emotional misery of a family’s internal discord and can therefore contribute to the destruction of a family and its wealth” (Daniell, 2008:212). Family disagreements and division between family members or family units can lead to personal, professional, and financial disputes which can tear apart even the oldest and best-intentioned of families (Daniell, 2008:212). Power-struggle can cause severe dispute amongst the stakeholders of an FO.

i) Conflict through distrust

Feuding in entities that involve family members is no new discovery (Crane, 1991), (Kellermanns & Eddleston, 2006). Different opinions on key decisions may evoke anger and distrust between family members (Crane, 1991:458) and (Magretta, 1998:116). This in turn may lead to intra-relationship conflict also referred to as
expressed struggles, intercommunal conflicts (Yilmaz, 2005). Two main relationship conflicts that may occur are interpersonal conflict and task conflict. Interpersonal relationship conflict is associated with resentment, animosity, anger, frustration and hostile behavior from one stakeholder to another (Kellermanns & Eddleston, 2006:358). Task conflict covers the argumentation on the merit of ideas. Task conflicts revolve around the open discussion concerning the entity. In literature, the type of conflict with the least amount of negative emotions is determined as task conflict. This may even have a positive effect as it encourages open debates, increases understanding and facilitates task accomplishment (Kellermanns & Eddleston, 2006:359), (Amason, 1996) (Jehn, 1995, 1997).

ii) Conflict Resolution Strategies

Thomas and Kilmann (1974) addressed five conflict resolution strategies; competition, compromise, accommodation, avoidance and collaboration (Alexander, 2011:5). They discussed these five categories in terms of concern for oneself and concern for others.

Collaboration management style facilitates an optimal level of task conflict resolution and creates a positive intraorganizational relationship, while establishing mutually acceptable solutions to satisfy the concerns of all stakeholders (Kellermanns & Eddleston, 2006), (De Dreu & Van Vianen, 2001), (Sorenson, 1999). The other four conflict resolution strategies: competition, compromise, accommodation, and avoidance, lack the combination of high self concern and high concern for others (Alexander, 2011:6) and therefore will not be referred to for the purpose of this study.

When stakeholders are unwilling or unable to resolve conflicts themselves, third parties must often become involved (Wall Jr. & Callister, 1995), (Kellermanns & Eddleston, 2006:365). Third-party intervention has been seen as an effective conflict resolution tool (De Dreu & Van Vianen, 2001) (Haynes & Usdin, 1997) and (Kellermanns & Eddleston, 2006) for both interpersonal as well as task conflict situations.

However, simply persuading stakeholders in a conflict situation to consult third-party intervention is challenging as it is even more difficult for third-party intervention to fully understand the core of a family conflict, and this is further exacerbated if the situation needs to be resolved in a timely manner. As the board of directors has strong ties to the officer, the beneficiaries and the principal, as well as being fully cognizant
of the operations of the entity, it is suggested that they are in a suitable position to
direct, monitor and control mitigation by implementing governance mechanisms.

An FO with a board implementing and guarding governance structures based on the
Reversed KISS Principle can therefore expect to achieve a positive intra-
organizational relationship. Mediation through the board will lead to successful
conflict resolution and lower the possibility for personal as well as task conflict.

**Creation of a positive intra-organizational relationship**

![Diagram](image)

**Figure 15: Creation of a Positive Intra-Organizational Relationship**

Task conflicts arise within groups or teams who do not agree on specific rights and
obligations, in particular, when stakeholders of an FO have different ideas and
opinions. Interpersonal conflicts are the “expressed struggle” of stakeholders.
Expressed struggles or intercommunal conflicts frequently need the intervention of a
third-party. As used here, intercommunal conflicts refer to large-scale, expressed
struggles between rival groups, which may occur within the borders of the estate or
beyond. By the very nature of the conflict-engendering tension of hostility, lack of trust, mutual suspicion, impulse to secrecy, biased communication, and lack of bilateral thinking, the conflicting parties are the least equipped to initiate a peace process by themselves. The intervention of third parties often becomes a necessity to act as mitigation tool (Yilmaz, 2005:443).

In an FO adhering to governance structures based on the Reversed KISS Principle, the board’s mediation can become this mitigation tool.

d) Family Office Networks

Establishing an FO board on the premise of diversity of complementary expertise and skills in a culture of trust still necessitates what Hilb (2008:87) defines as a “networked board structure.”

Since FOs are very private, organizationally rather small entities, they do not need large representative boards that are usual in public companies, but a “deliberately selected, strategic, diverse, accountable directing and controlling board…” (Hilb, 2008:88). This board disposing of a proper network structure would also be charged of the usual committee’s obligations concerning audit and risk management, nomination and compensation and communication.

The element of trust is an important factor in the network of communications, internally, as well as in the communication exchanges of the FO with outsiders. Since the desire for confidentiality, besides the preservation of wealth, constitutes one of the main reasons for establishing an FO, it is evident that only trust guarantees confidentiality for all exchanges of information. “In a world of abundant capital, it is learned experience and the identification of opportunity that are the rare commodities” (Daniell, 2009:125).

FO infrastructure also means exchanging ideas, experiences and lessons learned to understand the critical elements and the full range of structural options available to prepare for the next decade and beyond. FOs have recognized the need to share information with others, as long as discretion and confidentiality is guaranteed. An increased emphasis on productive exchange has been pushed by various FOs worldwide. The informal gathering of like-minded families and their representatives
facilitates interaction and sharing of ideas, experiences and opportunities as, for instance, co-investments.

An industry of global networks, including internet platforms such as Bhive Family Office, membership networks such as the CCC Alliance, Club B and FAME, have been formed. Numerous publicly available conferences have been organized, such as the Campden Conference. Recently, the need for more exclusivity grew and closed-group, non-sales oriented networks have been formed by members of FOs for FOs. Such networks, by invitation only, are typically benchmarked higher in price or are only available on a membership basis. Such events include the annual Poulteney Conference, RoundTable or annual network events for FOs sponsored by financial institutions such as UBS, Credit Swiss or Julius Baer.

One of the big advantages in attending such events is not only the opportunity of acquiring new information but also the chance to get acquainted with other people of the FO industry and collect peer feedback on various FO challenges. One such meeting led to the following very successful new network operation.

Eduard Jansen (31) and Edouand Thyssen (23) sixth--and fifth generation members of very successful Belgian entrepreneurial families, who met in 2006 at a Belgian family business program and created together “TrustedFamily.net”. Their venture was inspired by the “Web2.0” interactive tools, and combines elements of different social sites with security and data-protection features adapted from online banking.

Their company, Younited SA (2007), aims for long term stability and enables members of one specific entity to share various family and business news, collaborate on projects, and provides e-learning tools for the younger generation as well as archiving services for a fee. Furthermore, access to privileged information can be limited to guarantee confidentiality.

This example demonstrates the possibilities of creating a secure way to archive important data, exchange confidential information and also foster communication amongst the stakeholders of a specific FO thus creating a comprehensive network covering all stakeholders of the FO.
2.3 **Keep it Integrated**

The integrational dimension of the ‘FO governance’ framework will concentrate on the requisite criteria for the establishment of an integrated board of directors conscious of the internal and external situational context and capable of devising a strategy which aligns the interests of all stakeholders. Also, this board is expected to fulfill their task of monitoring, evaluation, controlling with due diligence.

According to Hilb (2008:109) and supported by the analysis of diverse companies as to their board practices, the following challenges have been observed:

1. Insufficient board attention given to strategic direction
2. A lack of professionalism in selection, feedback, remuneration and development of board members and top management
3. Limited or irregular review of the performance of the board, coupled with risk management.

2.3.1 **Targeted Selection**

“Careful attention has to be given to the size of the board and its composition; the process whereby new directors are chosen; the criteria relevant to identifying and recruiting new board members; the emphasis to be given to diversity, and the definition of director independence”

Source: Bowen (2008: 125)

The selection process in an FO can be fairly limited since the internal stakeholders (principals and beneficiaries) are family members and therefore are considered constant. Nevertheless, their roles and functions in the FO can be optional. It is important that certain boundaries are set in order to guarantee the optimal operational function of the FO. It is by all means very beneficial if internal stakeholders are qualified to hold a position on the board of directors or as an officer, based on their knowledge and expertise, since their personal interest will align with the interest of the FO. However, an internal stakeholder should not be empowered only on the notion of being part of the family without the necessary credentials. In such a case, the positions
of director on the board and officer should be given to a qualified professional. In order to find the most suitable candidate, a targeted selection process should be instated.

As the ‘New Family Office Governance’ framework accentuates the importance of the board of directors for FOs, the invitation to the board has to be well reflected and the candidate properly researched and referenced. The importance of targeted diversity in the board team composition has been demonstrated in the strategic dimension. Therefore the demand for targeted selection of board members is evident, if the board is to fulfill its designated roles.

The integrational dimension treats the targeted selection of board members. Böckli (2003) suggests following concept listing basic and complementary requirements to determine the selection process of the board.

### Contrasting Requirements of Board Members

<table>
<thead>
<tr>
<th>BOTH…</th>
<th>…AND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has no conflicts of interest</td>
<td>has broad, practical experience in different firms</td>
</tr>
<tr>
<td>Is an independent, outside member</td>
<td>has an intimate knowledge of the firm</td>
</tr>
<tr>
<td>Has a track record of long-standing</td>
<td>is not a CEO of another institution</td>
</tr>
<tr>
<td>international business success</td>
<td></td>
</tr>
<tr>
<td>Has time to be a committed board member</td>
<td>has other independent board seats</td>
</tr>
<tr>
<td>Is not paid too highly</td>
<td>commits enough time to preparation and attendance of board meetings &amp; workshops, and to passing on implicit know-how</td>
</tr>
<tr>
<td>Is already as well-off as possible</td>
<td>is not dependent on the board position</td>
</tr>
<tr>
<td>Takes on personal risk as a board member</td>
<td>has unlimited solidarity with firm performance</td>
</tr>
</tbody>
</table>

Table 8: Contrasting Requirements of Board Members

The main tasks of board members demand areas of specific expertise, leadership skills, and social skills in order to fulfill the following requirements: coaching, board management, strategic direction, strategic control, and relationship management. Even with time constraints, it is important that the directors are available, especially in crisis situations.

Furthermore, Epstein and Roy (2010) identified “Ten keys to superior board performance” which are subdivided into two groups; criteria for board membership and criteria for the board process and are presented below in table 9: The Keys to superior Board Performance.

<table>
<thead>
<tr>
<th>Criteria for Board membership:</th>
<th>Board Process:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
<td>Committee structures</td>
</tr>
<tr>
<td>Ethics</td>
<td>Productive meetings</td>
</tr>
<tr>
<td>Diligence</td>
<td>Effective performance (evaluation system)</td>
</tr>
<tr>
<td>Independence</td>
<td>Information availability</td>
</tr>
<tr>
<td></td>
<td>Effective succession (planning system)</td>
</tr>
<tr>
<td></td>
<td>Open communication and reporting system</td>
</tr>
</tbody>
</table>

Table 9: The Keys to superior Board Performance


These superior board performance requirements should be taken into consideration when selecting a suitable candidate. Board members have an essential role in FO governance and can gain a competitive advantage for the entity if knowledgeable, committed, engaged and placed in the right position at the right time. In particular the selected candidate needs to be a ‘fit’ in personality competence, know-how, leadership competence as well as social competence (Hilb, 2008:117).

Furthermore the candidate for a nomination to the board should possess certain attributes of personality and character which in turn will accommodate his/her personal inclinations and preferences through the position in the FO. Sulger-Buel (2009) suggested following prerequisite skills when selecting an external member to control and direct an F
**Skills and Attributes required in the FO sector**

<table>
<thead>
<tr>
<th>Skills Required**</th>
<th>Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-faceted-ability to juggle issues</td>
<td>Sociable disposition, communicates transparently, people skills</td>
</tr>
<tr>
<td>Consideration of tax, legal issues</td>
<td>Preference to concentrating on one client only, the FO</td>
</tr>
<tr>
<td>Attention to detail</td>
<td>Enjoys challenge of adding value to the FO</td>
</tr>
<tr>
<td>May require input relating to business as well as financial assets</td>
<td>Capable of following through on specific instructions but also provides input on planning strategy and monitoring</td>
</tr>
<tr>
<td>Teaching skills</td>
<td>Values reliability and responsibility</td>
</tr>
<tr>
<td>Good communication skills</td>
<td>Prefers the relative flexibility of an FO to strict hierarchical structures</td>
</tr>
<tr>
<td>Diplomatic skills - position of influence in family</td>
<td>Appreciates the ‘human dimension’ of an FO but directs “nose in- hands out”</td>
</tr>
</tbody>
</table>

**Skills Requirement taken from Christian Sulger-Buel 2009**

Table 10: Skills and Attributes required in the FO sector

Source: Author

### 2.3.2 Evaluation and Feedback

In order to ensure that an FO is working at optimal level, a process of targeted feedback to all stakeholders needs to be established and well-structured. Naturally, the feedback will primarily concentrate on the external stakeholders.

It is rather difficult to receive an honest evaluation of key decision makers from lower tiers of the entity, since they might be reluctant to voice criticism, wanting to protect their position. Therefore it is suggested that the board of directors starts with a self-evaluating mechanism while creating a “safe harbor” environment conducive to expressing thoughts and ideas, in a culture of trust.
The evaluation of the FO in this case is not simply the evaluation of financial returns but rather an evaluation of performance of the FO stakeholders, especially of the board and by the board members, and of management.

**Triangular Process of Evaluation**

1. What? (Action in specific situation)
2. How? (Resolution of specific situation)
3. Result? (Evaluation of solution)

Figure 16: Triangular Process of Evaluation

Source: (Hilb, 2008:118)

The triangular process of evaluation is not concerned with the control function of auditing and evaluating the financial success of the FO, but rather an evaluation of the status of the FO stakeholders in the integrational dimension, achievement, professionalism, cooperation and leadership style.

This kind of evaluation is more an evaluation of selection processes, feedback, communications, office culture and more specifically the board process and culture of the FO. The evaluation of the officer or management is primarily estimated on the operational returns and financial success of the entity. But in the framework of FO governance, in the integrational dimension, the officer will be evaluated under more exhaustive aspects, similar to the evaluation of the directors of the board.
This integrated evaluation will check the officer’s expertise but also his social skills, his character and attributes, his manner of communication, and his position on the human and intellectual FO, capital the human resources. Ideally the officer should be evaluated by the board directors on leadership, strategic planning, financial results, his cooperation and implementation of board directives and on his effectiveness on operational controlling (Hilb, 2008:129).

Evaluation of the beneficiaries only makes sense if they hold any position in the FO. Evaluation of the principal, certainly those of the first generation is rather problematic, also for the beneficiaries, even if the principal acts as officer or chairman of the board.

According to Hilb (2009:147) the ideal principal has the attribute of “nose in, hands out… with a cool head, a warm heart and working hands.”

The integrational dimension of FO governance sees consensus by alignment of the different stakeholders’ diverse interests in an atmosphere of constructive criticism and a culture of trust.

When debating and deciding upon the future direction of their FO, the stakeholders need to go back to the foundation of their specific FO legacy. Scherrer (2008) suggests giving those thoughts a structured ground, and therefore the following aspects need to be clarified:

Mission: What is the main function of the FO?

Vision: Where should the FO develop?

Relationship: What is the environment of the FO?

Strategy: Which steps are necessary to accomplish the set goals?

Obviously an overall evaluation of the FO is only possible if the goals and relationships of the stakeholders have been previously defined, as well as their rights and responsibilities.

The process of external evaluation of directors of the board by unbiased external consultants or other professionals will function along similar lines. For the internal as well as for the external evaluation of the board, relevant discussions and exchanges between the parties are helpful. Informal internal feedback talks “are nothing like assessment talks” (Hilb, 2008:122). But they can only be productive if the board has agreed on the individual and common goals and their relevant time frame in previously designed structures.
The concept of integrated board management prescribes the targeted selection of board members and a positive, complementary, board composition. This concept is also indispensable for small to medium entities like an FO and should be followed from the very institution of a board, which certainly at the starting phase of an FO will be kept to a minimum number of three to a maximum number of five directors.

As the nascent FO, similar to a small to medium family business, has a strong principal figure, it will generally be this principal who will act as chairman of the board, and sometimes even as officer, simultaneously. The wisdom of such a configuration remains debatable. It is reminiscent of the joke about the lawyer, who by defending himself, has a stupid client.

On the other hand, with family involvement obvious alignment of interest can be assumed and the time allocation of the chairman or director to the FO is a given fact. Nevertheless the input of an integrated board for the FO is crucial. Expert advice on different FO challenges - spanning from strategic directing and monitoring - up to the grooming and coaching of the younger generation, shows the value of such a board for all FO stakeholders.

2.3.3 Succession

Education and also family cohesion in the younger generation prove to be the key ingredients for smooth, low conflict transition and succession periods in the FO. A clear succession plan, drawn up well in advance, facilitates the process for the beneficiaries as well as for the other stakeholders.

“Succession is a key ingredient of legacy and multi-generational perspective” (Lowenhaupt & Trone, 2012:76). The purpose of the family wealth will decide the family’s estate planning, also in an FO. But FO governance concerns less estate planning as the procedural and organizational side of succession for the FO board and officer. Bowen (2008) cites: “…in an alarming finding, 31% of boards surveyed said that they do not have an emergency succession plan (Bowen, 2008:105). Furthermore, he states: “…to fail to see the significance of this potential leadership deficit amounts to a failure of vision on the part of boards” (Bowen, 2008:107). An FO with high requirements as to expertise and attributes of candidates will have a clear succession plan as part of their governance structure.
If FOs plan to acquire top talents for their management or board, they must first ensure that non-family stakeholders are not confronted by a glass ceiling, reserving all top positions for family members. Moreover, “…the FO principal should beware of viewing compensation and benefits as expenses rather than investments” (Carney, Gedajlovic, & Sur, 2010). The wish for continuity, very pronounced in the FO sector, demands this continuity also from the stakeholders who direct, implement and monitor the FO operations. Therefore, continuity for the board members and management is an important consideration in the succession planning of an FO within good governance structures. But continuity should not be misunderstood as individual continuity, rather the continuity of all roles, thus allowing for regulated, well planned succession. Also “sensible structures put more emphasis on succession planning” (Bowen, 2008:107).

At the Campden Conference (2009) Lladro gave an example of the difficulties and sensibilities evoked by the question of succession in his FO: “with other family members we were implementing the generational transition… difficult to decide who is the new leader, taking into account that there were three founders.”

Illustrating the problems of an unchartered succession phase, a majority stakeholder of the Tabnet Family Office declared “During that time I did not agree with some strategic decisions that were taken by the board of directors and I decided to sell the majority of my stake in the company. A year later I founded my SFO having my father, my brother, my sister and myself as shareholders” (Campden, 2009).

As the FO governance framework considers the board of directors’ role as crucial from strategic direction to monitoring and controlling the FO, succession planning for the board should be clearly determined in the FO’s ‘charter’ besides compensation, time lines, modalities of selection or even dismissal of board members.

“Building a strong board is a multiyear process… it is important that advanced planning and the recruitment of new board members be undertaken with the knowledge of when particular board members will retire…” (Bowen, 2008:134).

If terms of service on the board are predetermined in clear and structured succession planning, the search for suitable board candidates, as to expertise required and as to personality, can be conducted without task or time pressure.

When succession planning becomes part of the convened board process, directors of the board who have been carefully selected and who have achieved an integrative board organization and culture, will perpetuate a holistically operating FO.
2.3.4 Compensation

The topic of compensation has been in the spotlight for the past decade. Some more dubious practices of remuneration, specifically bonuses awarded at certain institutions, have been widely discussed, both in industry and within the press. In the United States, especially, the reality that some professionals received extremely high remuneration packages whilst delivering low performance has engendered scorn and anger, not only amongst shareholders of those corporations, but also from the general public. The global financial crisis has demanded that entities face the question of remuneration more frequently and fairly.

Frustrated stakeholders have witnessed professionals steering an enterprise entrusted to their care into crisis, from plummeting share prices through to even insolvency or bankruptcy, then walk away with “golden parachutes”. Investors or employees have lost money, and or their workplace and consequently their lifestyle. Those who kept their integrity, and the wider public, are outraged to see negligence, sometimes even criminal negligence, self interest, greed and disregard of presupposed fiduciary obligation being so undeservedly and yet so richly rewarded.

To mitigate such a situation an FO should try to attract the best and brightest managers in addition to taking care to assemble a board of directors representing experience and expertise in important fields of like finance, tax or law. Furthermore, prospective board members should possess the attributes of responsibility, integrity and social intelligence.

William Bowen served on over fourteen boards in the for-profit and non-profit sector. From his experiences he stated: “…compensation of directors should both reflect the responsibilities involved… and be high enough to attract the requisite talent.” It is doubtful that the level of compensation is critical for most corporate directors’ willingness to serve on the board, as long as the “time commitment required and the liabilities accepted are recognized adequately” Bowen (2008:172).

Although he sees the danger in overpaying directors so they are not be willing to jeopardize their seats by speaking up, he maintains that: “in some ways the form of compensation is as important as the level” (Bowen, 2008:173), such as linking directors’ compensation to the company’s performance by dispensing company stock as a large share of the compensation and to be held as long as they sit on the board. “A major reform would be to put much more of the compensation of directors of publicly traded for-profit companies in the form of equity in the companies for which they are
responsible as is the case today with directors of privately held companies” (Bowen, 2008:173).

Since directorship on the board of international enterprises provides, on top of compensation, a certain status and prestige, the FO, by its very nature of privacy has to offer other incentives such as the offer of co-investing, or active participation if the FO runs a philanthropic project of interest.

Furthermore, every FO will be well advised to also think about the duration of the term before tackling the subject of board compensation. Concerning the FO’s board of directors, the conditions and regulations on institution, succession, co-opting, and dismissal should formally be determined before the establishment of the board.

As in any business, stakeholders need to be fairly compensated. Compensation of officers, board members and beneficiaries should be adequate to the respective stakeholders’ responsibilities. To achieve good governance the system of compensation throughout the FO should be agreed on by all stakeholders and communicated transparently.

The basic remuneration should be fair and applicable to the market conditions. Eventual bonuses should be linked to the performance of the FO operations, and be determined in a designated, sufficiently long term time frame.

As academics with practical experience, such as Hilb (2008:142) have deduced: “the variable component of remuneration of board members in many large public companies must be strengthened at the expense of the fixed component, in order to better link payment to the performance of the individual board member, the board team and the company’s success…”

This reasoning naturally also applies to the compensation approach for board members of an FO.

The saying: “You get what you pay for” portrays that remuneration should be market oriented, naturally, for the management and board, employees, but also performance-linked with the eventual incentive offer of co-investment. Still, the evaluation of performance must never be short-term but should consider a span of minimum three years. According to Bowen (2008:98) “…in depth evaluation conducted on a three to five year cycle in addition to annual evaluation… should have a clear developmental aspect”. Otherwise irresponsible gambles for quick high returns like those practiced in some hedge funds or financial institutions, with an eye on the next quarter only, will lead inevitably to disregard of risks and finally to loss of wealth.
2.3.5 Development of the Board of Directors

In order to achieve an integrated FO, the directors of the board as well as all stakeholders should be simultaneously supported on two levels: as individuals and as a team. In the section: ‘Development of the board of directors’ these two levels are outlined: the individual development and the team development of the board. Each individual board member should demonstrate, apart from professional expertise, “integrated-success” - intelligence which defines the combination of relevant competences to direct and control the business entity.

At the board team level, this combination describes the evolution from a “group of stars” to a “star team” (Hilb, 2008:143).

The development of directors of the board at an individual level will depend primarily on each director’s personality, his expertise, his interest in the FO and finally his intellectual curiosity. The individual development will also be influenced by the office culture and the atmosphere reigning in the FO and flavoring the individual relationships amongst stakeholders.

Furthermore a renitent officer, an all-knowing, advice-resistant principal, non-interested board companions or irresponsible beneficiaries naturally dampen the diligent director’s enthusiasm and impact negatively on all aspects of his development. These bleak situations have been witnessed. But an FO which operates in the FO governance framework will have a board whose directors have been assembled by targeted selection and who demonstrate the required attributes and skills.

This integrational board should also further strive for a positive development of its individual directors and board team so as to create a complete and complementary entity in charge of the FO.

“(… no one) requires the formation of a working board. It only comes about if the owner-manager desires effective help to ensure the long-term viability of his company and this requires outside directors who can stand up to the business owner’s flak long enough to give him the advice, support and help he needs.”

Source: Danco and Jonovic in (Benson, 1991:325)
FO boards often consist of family members, lawyers and financial advisors. The principal, who in some cases is also the chairperson of the board of directors, imprints his/her attitudes on the FO. Should any of the stakeholders disagree, the matter is solved by the resignation of that individual. Such boards are detrimental to the FO and contrary to the guidelines of FO governance. A board of directors who can objectively provide guidance, connect the entity to valuable contacts and networks, as well as be an unbiased sounding board for the stakeholders, may rather create long-term viability for the entity (Benson, 1991:326).

Researchers and practitioners acknowledge the importance and added value of a well-functioning board of directors (Johannisson & Huse, 2000), (Forbes & Milliken, 1999), and (Voordeckers, Van Gils, & Van den Heuvel, 2007). As a number of international reports on best-practice-governance put specific emphasis on the role of the board of directors, it will be of interest to assess whether and how the board of directors can add value to an FO. The “Glocal Approach” builds on the stakeholder theory and shareholder approach to assess the criteria critical to the board for creating positive intra-organizational relationships amongst the stakeholders (Hilb, 2009:5).

In order to gain a competitive advantage by establishing a board of directors in an FO, it is important to define the function, role and concepts that this board is charged with. It is equally important to determine the values, functions and mission of the FO, and ensure that the directors understand and adopt the family’s values and mission and integrate them into the daily routine of the FO as well.

Families can encounter diverse problems when establishing an FO. Some of these challenges are the attracting and retaining of talented staff, complete and timely regulation and compliance, family dynamics, and back office function (Pomipian 2009:265). The question remains: what is the competitive advantage that a board of directors offers in an FO setting? Jaffe stressed that if a family counts more than one family owner, and more than one entity, which applies to FOs, the family should develop and mobilize the board as a value added resource (Jaffe, 2011:14). He further emphasizes that good governance internal and external board member to relies on ensure that the family’s investment provides the expected returns, and that they operate according to the wishes and values of the founders and family members, which also means providing coaching and direction for the next-generation, and their succession.

Due to the complex business dealings and immense wealth involved, running an FO can result in confusion without adequate structures for information aggregation. These
controlled structures, in addition to rules and regulations, must be instated without exception. Strong corporate governance is critical to the long-term preservation of value. As no family is the same, no FO will be the same, and thus the necessities of governance will likewise not be the same.

The following questions need to be asked: where are we today? Where do we want to be tomorrow? How do we get there? When those three questions are answered, the direction, management and control of the FO can be decided in an individually relevant framework of good governance overseen by the board.

By implementing the FO governance system, families can not only preserve wealth, but also help members handle sensitive family issues that can put long-term wealth objectives at risk. A core set of guiding ideologies should be established in order to support a family when faced with its toughest challenges. Identifying a family’s collective vision, values, mission, roles and responsibilities is essential in helping manage a codified family governance system, which can also be understood and adopted by external stakeholders of the FO.

For the successful development of the FO, the implementation of the control mechanisms of governance is of tremendous importance as both a decision-making device and mediation tool. The basic condition is that, although governance guidelines can be outstandingly formulated, if not understood, accepted, and implemented by all stakeholders, governance mechanisms are of little use.

Although primarily the external stakeholders get evaluated, the contribution of the principals and beneficiaries is nonetheless of interest. It is the role of all stakeholders to identify the current and the future risks, and to find appropriate solutions.
In order to ensure that the principal and the officer and the board function as a team, learning mechanisms need to be in place at all levels. Presenting a problem to the board team will allow the team to find a solution by the application of unified team knowledge and skills. According to Dubs (2003), the four following steps charter a practical problem solution:

The management must inform the board of real challenges as early as possible…

The board must be prepared to work on individual agenda items in the spirit of the learning process

Dominating and know-it-all stakeholders have to be prepared to learn by listening to unconventional thinkers and outsiders.

The board orientation changes from backward-looking reporting, to active supervision and direction.

Source: Dubs (2003)

This development of the board of directors is at the heart of ‘New Family Office Governance’ which sees the board not looking backward but forward, strategically directing and monitoring.
2.4 Keep it Controlled

Boards of directors should dispose of complementary know-how because controlling an entity requires a pool of diverse expertise. Discussing auditing, risk management and communication in the controlling dimension of the Reversed KISS Principle clearly emphasizes the skill set which is necessary to complete these functions. Only when a board member is truly capable of monitoring those specific tasks, should they accept a seat on the board. Serving on a board of directors for an FO requires a broad array of skills as the FO, like family businesses, and small to medium enterprises (SMEs), does not need a numerous board. Rather a big board of directors would not be politically advantageous or justified.

In order to diligently pursue their mandate, and to master the controlling dimension of the FO’s governance framework, the board members need to assemble the requisite professional know-how and understanding.

2.4.1 Auditing

Auditing, internal as well as external, constitutes the cornerstone of the controlling dimension of FO governance.

Formalized regular internal audits transmit a clear picture of FO operations allowing even for timely amendments in the operational or financial choices.

External auditing by independent professionals will further provide the unbiased, objective statement of the FO’s operations and position and is indispensible for effective risk management.

There are two main types of auditing: internal and external. Since FOs are not public companies, internal as well as external auditing remains at their discretion.
a) Internal Audit

Internal auditing today is based on the combination of the following three observations:

- Financial reporting in the assurance role checks the financial targets, whereas the consulting, advisory role evaluates the realization. Fulfilling both roles demands integrity of the financial information and the protection of all values.

- Operation covers the observation and assessment of their realization. Operational compliance used to be the only aspect of the internal audit. Since the focus on governance has intensified, internal auditing has been extended to more areas.

- Compliance with laws, regulations and guidelines is watched on the entity’s industries and national level

  (Bumbacher, 2003 cit. in Hilb, 2008:164).

The Sarbanes-Oxley Act of 2002 stressed the role of the internal audit function. Gramling, Maletta, Schneider, and Church (2004) insist that the internal audit can ensure quality corporate governance.

Auditing is absolutely necessary to prevent the type of situation that has developed in the last few years in such prominent companies as Lehmann Brothers and KarstadtQuelle. Without a regular and impartial audit, FOs can experience the same crises as other businesses and can end up in bankruptcy. Auditing functions include enforcing transparency within the FO and ensuring absence of unethical practices. Therefore, only complete cooperation between the auditors and the stakeholders can lead to a successful and useful audit.

In order to achieve a successful audit, the board of directors needs to exercise specific monitoring functions, both on themselves and their performance, and on those of the officer. In some cases, especially in the first stage of an FO, discreet monitoring of the principal may even be necessary.
These control and monitoring functions are generally aimed at the officer and his management team, who are the responsible parties for the implementation of any given mission. Control and monitoring of the board of directors is an especially difficult process. In practice, usually the board of directors controls itself, and any board members who do not perform adequately are either asked to leave after their term in office expires or may be voted out by the beneficiaries at the annual general meeting.

Assuming that the FO’s board of directors has the ideal composition of diverse and complementary expertise, as well as requisite personal attributes and social skills integrated into governance structures, then even a board-internal evaluation of and by its members can yield useful assessments of the board’s and each individual member’s contribution and functions. Also, if a culture of trust has been created, then constructive criticism or task conflicts can be resolved positively, facilitating control and monitoring and improving or redirecting FO operations, as well as reassessing the FO’s human resources and other assets.

As FOs are not hampered by a large bureaucratic apparatus, the internal audit can be conducted by listing the FO’s goals on an A4 page for periodical review. This procedure allows a quick check on the FO’s operational efficiency and success, as well
as creating a sense of unification amongst the stakeholders or at least ‘putting everyone on the same page’.

FO principals, and even directors of the board, often do not acknowledge the importance, even advantage, of an internal audit, despite the low level of cost and effort and the high yield of control and profitability. It is understood that most FO lose fortunes because of lack of control. Internal control would be a direct tool in order to review the current operation and at the same time implement protective mechanism in the FO.

b) External Audit

An FO conducting periodical, at least bi-annually, internal audits and independent external audits will be more efficient in its risk management, as well as its strategic operations.

It is important to ensure that the external auditors do not pursue other interests or have any responsibility in the operation of the FO. To avoid any conflict of interest and guarantee impartiality, some FOs chose a university or another completely neutral institution to conduct their annual external audit. Furthermore a timely reaction to diverse situations and challenges by strategic review and eventual correction of course is facilitated, so the additional cost is well spent.

“The Risk Management process does have its own dynamics: it should therefore be integrated in the internal and external Audit and strategy process” (Kalia & Müller, 2007:85).

2.4.2 Risk management

In the 1970s risk management was limited to credit risks. Then in the 1980s it dealt with business risks on an operational basis, whereas in the 1990s it covered all financial risks. From 2000 on, integrated risk management encompasses not only financial and operative risks, but also strategic risks and extends to risks inherent in corporate governance. Risk management has to be integrated in the entity’s management and strategy and “should not become a parallel organization by itself” (Müller, Lipp, & Plüss, 2007:794).
Swiss Law (OR Art, 716a) holds the board responsible for financial planning, controlling, and auditing. Bernet (2003) in (Hilb, 2008:185) sees the tasks listed in Figure 21: The directing and controlling function of the board as the board’s responsibilities in directing (strategically) and controlling their entity.

### The Directing and Controlling Function of the Board

<table>
<thead>
<tr>
<th>Keep it strategic</th>
<th>Keep it controlled</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Management</td>
<td>Financial Leadership</td>
</tr>
<tr>
<td>The directing function of the board</td>
<td>The controlling function of the board</td>
</tr>
<tr>
<td>1. Develop strategic goals (Firm policy)</td>
<td>1. Define financial targets (ROE, C/I, financial structure, liquidity, risk parameters)</td>
</tr>
<tr>
<td>2. Determine the resources required to reach strategic goals</td>
<td>2. Finance the strategy</td>
</tr>
<tr>
<td>3. Ensure an appropriate allocation of resources for achieving goals</td>
<td>3. Monitor financial flows</td>
</tr>
<tr>
<td>4. Create guidelines for top management on how resources are to be applied in achieving goals</td>
<td>4. Set financial policy</td>
</tr>
</tbody>
</table>

Figure 18: The Directing and Controlling Function of the Board

Source: Hilb (2008:185)

In view of the tense economic situation worldwide, the importance and application of risk management for every entity on the global market will be evident. “Risk management… describes a modular circulation of communication, documentation, control, early warning mechanisms and development. The basic elements are: risk perception, risk identification, risk communication, risk analysis, risk assessment and risk control.” (Gindi, 2003:17) in (Gindi, in Müller, Lipp, & Plüss, 2007:391).

This definition of risk management calls for a board intent on good governance, disposing of the requisite expertise.
According to the Ernst & Young report (2002): the basic concept of risk management endeavors to define future-oriented and integrated concepts, increasing the given opportunities for wealth growth, while ensuring entrepreneurial freedom. In an FO, it should be the responsibility of the board of directors to determine strategic risk objectives and to operational risk management practices. This can be achieved not only by the identification and effective implementation of entrepreneurial opportunities but also by detecting and preventing dangers in a timely manner. This way, both the objectives and the increased value of an FO will be realized.

Self- and external evaluation of a board at fixed periods serves also to evaluate the governance policies and practices of the FO. Areas needing improvement or simply reevaluation will then be diagnosed, and the improvement, also of the performance targets, will positively impact on the board as well as the management teams (Hilb, 2008:188).

Self- and external evaluation of the board can be conducted based on Hilb’s “8 W” concept (Hilb, 2008:200).

“Board policies are reviewed on the following topics:

- Board guidelines (where?)
- Board culture (how?)
- Board structure (with what?)
- Board meeting management (why?)
- Board diversity (from where?)
- Board champions (who?)
- Board stakeholders (for whom?)
- Board feedback (with what success?)”

These components should answer the eight central questions of board management” (Hilb, 2008:200). Moreover, figure 19: cyclical representation of the roles of all stakeholders in risk management of an FO, illustrates the different roles and functions for which the individual stakeholders should be held accountable.
In order to minimize risks, their monitoring and management should be integrated in the governance structure. In an FO, the level of risk will not depend on financial capacity. However, not all risks are financial and these others need to be considered as well.

Apart from systematic risk of investment-strategies or objectives in the market, systemic risk, risk to the entire market, describes risk due to the strategic interaction of many players of the market who develop similar agendas. This can exacerbate systematic into systemic risk. This scenario sometimes occurs because of political or
economic crisis and, in the worst case, ends in bank runs or fire sales (Campden FO Publishing, 2009).

Disregarding some politically unstable environments, the broad array of different risks which have to be avoided or at least minimized, are market risk versus operational risk regulatory or legal risks which could endanger the very constitution of the FO and its tax conditions. Reputation, reporting and so called ‘people risks’ are well inherent in the execution of the FO’s business and cannot be delegated away from the board of directors who should monitor them with due diligence, whereas custodian risk, often concerning third outside parties can eventually be hedged and insured against.

Furthermore, the board should first propose well-defined goals, including a detailed risk policy. Secondly, together with the officers it is advisable to acknowledge through risk analysis the type of risk and the level of risk acceptable to all stakeholders involved. Risk analysis should be reviewed at least on an annual basis and, as part of risk management, be incorporated into the due diligence agenda.

A fundamental responsibility of the board of directors is to protect the assets and ensure that the FO benefits all shareholders. The board’s ability to provide this level of accountability depends on having independent non-family members on the board (Jaffe, 2011:14). “What is missing… is a framework and process for simultaneously dealing with both… governance and risk in one model” (Show, 2003:25) in (Hilb, 2008:165).

Müller, Lipp and Plüss (2007:798-804) propose a risk management process going over six phases. The risk management organization starts with

Phase 0: the preparation of process and of the organizational, political, and directive parts.

Phase 1: risk analysis - should be conducted ‘bottom-up’ which means the participation of all stakeholders and employees cooperating in defining eventual risk scenarios relevant to their entity.

Phase 2: risk attribution and evaluation covers the following steps - consolidation and classification of strategic, operational, and financial risks. Then follows the prioritization of the previously identified risks, as to their probability, factor of surprise and possibility of preparation. The ten most important risks of this Master Risk Lisk (MRL) are labeled by the authors “top 10”. The top 10 and the MRL will constitute the foundation for future risk control as well as the benchmark for the evaluation of counter measures.
Phase 3: risk counter measures - starts by a detailed analysis of risk scenarios. The interaction and quantification of risks, searching for possible solutions – including the cost factors leading to an action plan for each risk. The Key Performance Indicators (KPI) agreed on; allow a clear methodology and judicious allocation of resources. To be effective this action plan can only succeed if interactive communication, preferably every quarter, between the board, management, and risk and audit committees is established.

Phase 4: renewed risk evaluation - which the authors propose bi-annually, is crucial for the process of risk management because it monitors the development of different risk scenarios, the effectiveness of counter risk measures and directs the risk management process. Risk reevaluation aims at managing controlled risks in order to reprioritize risks from the top 10 list to degrees below. The elements of the action plan will be translated into a holistic project of risk management.

Phase 5: risk control by information and communication - covers meetings between management and board, Group Executive Meetings (GEC), Business Review Meeting (BRM), and generally all strategic planning.

The documentation and exchange of information on all activities inherent in risk management is crucial for establishing benchmarks and milestones measuring the effectiveness of the used risk management strategies and are the basis for all risk control.

By its very nature, “…entrepreneurial activity cannot consist in eliminating completely any risks- and therefore chances” (Müller, Lipp, & Plüss, 2007:238). Conclusively the acceptance of certain risks, well analyzed and evaluated does generally not constitute negligence, but “the unavoidable basis for economic activity” (Müller, Lipp, & Plüss, 2007:238).

2.4.3 Risk management and IT-Governance

Another sensitive part of integrated risk management covers IT-governance. The field of information technology grows more sophisticated and mobile on a daily basis. But those advantages also bring new risks for any economic enterprise, ranging from hacking and data theft to misuse, especially for FOs, of confidential information. Therefore, an IT security audit on a regular basis is indicated. IT governance in the
framework of integrated risk management should be of paramount importance to the board of directors, who should consult an outside specialist if none of the directors masters the technological know-how necessary for understanding and controlling an IT security audit. IT governance and security naturally constitute the ‘conditio sine qua non’ for virtual offices.

Due to geographical dispersion and time constraints of FO stakeholders and directors of the board, and also for defraying costs, the virtual FO is becoming more acceptable in the industry. Especially for FOs where a growing number of shareholders hold voting rights, the virtual office presents an acceptable solution for assembling votes, opinions, strategy and project propositions.

But as fast as firewalls and other protective measures for IT data are established, there will always be techniques used just as fast for hacking and stealing confidential data. Therefore “IT security is one building block of an enterprise’s risk management” (Müller, Lipp, & Plüss, 2007:212).

A workshop plus tutorials on ‘Electronic Governance and Organizational Transformation’ was organized in 2007 by the Center for Technology in Government, University at Albany, State University of New York. The research presented on the use and challenges of Information and Communications Technologies (ICTs) in governmental organizations is also relevant for the FO sector: “related to electronic governance and organizational transformation, in particular, network forms of governance, cross-boundary information sharing, and capability assessment” (Considine & Lewis, 2003:99).

As information integration provides the possibility to access multiple sources simultaneously in different locations, it also changes organization and communication structures.

“Networks are based on relationships, mutual dependency and norm of reciprocity” (Considine & Lewis, 2003:100). In this dissertation “network” is regarded as “characterized by rationality based on a shared organizational culture… flexible organizational structure, and services tailored to the need of individual clients” (Considine & Lewis, 2003:100).

The challenges of data and technical incompatibility can be met by rigorously perfecting the organizational and technological processes. But “those changes are influenced by specific types of social interaction, which take the form of group decision-making, learning, understanding, trust building, and conflict resolution” (Considine & Lewis, 2003:101). Those are the very demands on FOs in their
operational as well as their social interactions, also at board level, and that ‘New Family Office Governance’ will enable them to meet.

IT security audit has to counter internal and external challenges to data security in the following points:

- Data archiving, server system and personal computer
- E-Mail systems
- Messenger systems
- Voice over internet protocol (VOIP) and traditional telecommunications
- Enterprise resource planning (ERP)
- Reporting services, business intelligence
- User dependent network platforms

(Müller, Lipp, & Plüss, 2007:213)

Internal and external auditing are recommended on at least an annual basis. The same applies to the IT security audit which can be conducted by working through a checklist covering the IT structures, IT project management, license- and support-control, all security measures concerning data and other communications and lastly also a technical appraisal and supervision of all IT instruments (Müller, Lipp, & Plüss, 2007:215).

As mentioned, responsibility for both IT security and its auditing falls to the board of directors. “The board should realize that [IT] security is not only a single mechanism but an ongoing process which has to check and revise regularly the used mechanisms and techniques” (Müller, Lipp, & Plüss, 2007:215).

2.4.4 Communication

In an FO, as in any other organization, communication is essential for operational excellence. At all levels, transparency of information and a free exchange of, hopefully objective, information is imperative. Communication originates with the principal, who communicates his/her overall vision as well as specific instructions on objectives,
concepts and strategies to be evaluated and possibly implemented by the external stakeholders. However, good communication is not one-way. In order to conduct a successful operation, communication channels and feedback must be established between all stakeholders.

One challenge presented with communication, apart from value judgments, is that it can be confusing unless a structured form of communication is in place. The overall responsibility of dissemination of information in an FO rests with the officer. He should be in charge of managing the flow of information and communication amongst the stakeholders. He is the stakeholder who has the most comprehensive overview of the entire FO operation. An example of such a communication function is the initiation and preparation of meetings and seminars, which entails questions concerning the presence of individual stakeholders on those occasions, the agenda, the level and extent of information distributed and the discussion and assessment of ongoing or new projects. An effective officer is essential for the smooth flow of comprehensive information between stakeholders. “The one critical requirement is that the feedback be accurate” (Bowen, 2008:160).

Objectives are declared to primarily satisfy the requirements of stakeholders, in particular beneficiaries, and increase the loyalty of employees. Therefore, performance success is based on the reactions of the stakeholders. As “each communication meeting has an associated cost: first, the remuneration and social benefit contributions of all the meeting participants; but secondly, frustrations that can result from badly organized information sessions. Therefore, economic principles should be applied to the organization of meetings; achieving the two most important communication targets (improvement of transparency and relationships) with a minimum input of money and time” (Hilb, 2008:178).

In order to create favorable conditions the board needs to establish a transparent and safe environment for all stakeholders to express ideas, suggestions and concerns in the FO. If the board of directors is remote, major problems may not be discovered until too late. However, if a board of directors is accessible to all stakeholders, concerns can be voiced and major threats more easily eliminated.

As a rule, according to Hilb (2008:175), communication should be complete, objective, understandable, timely, concise, and logically arranged.

In an FO, the hierarchy of “who knows what when” does not always apply as it possibly would in a business. Communication often includes a more informal exchange which will be further described below.
a) **Flow of communication**

The size of an FO determines the modality of communication. Large FOs tend to have regular meetings, whereas smaller ones communicate more on a personal, informal level. A significant problem with communication stems from the dynamics of the FO, in particular between the internal stakeholders. Levels of interests from family members will vary along a spectrum, and some principals insist that everything goes through them.

One of the most important aspects of communication is to provide internal transparency. As Bauknecht stresses: “It should give all the relevant information plus an explanation… all decisions and necessary steps. In depth reporting can be added, but only if the reader really wants it...” (Campden FO Publishing, 2009).
Figure 20: ‘Flow of Communication in an FO’ illustrates the optimal structure of the communication flow. The blue arrows indicate a formal flow of information between the stakeholders, which is the optimal method. The black arrows, however, show the reality of a more informal communication flow. It is clear that two channels of communication flow can result in confusion and frustration and potentially hinder the successful operation of an FO. Effective communication channels can be costly, but once established overhead costs will be reduced.

Furthermore, having effectively structured communication channels assures better access to, and aggregating of information hence also guaranteeing its timeliness, since time is often decisive to the value of information, which becomes obsolete when arriving too late.
Generally speaking, communication flows should enable a clear understanding of the relevant information and projects of the FO, thus facilitating their practical realization. It is the voice of the FO and, as such, it should be clear and articulate.

**b) Board Communication**

Apart from the communication flow between the board and other stakeholders communication between the board’s directors is equally important and is also based on the Reversed KISS Principle:

- **Keep it Situational:** compliance
- **Keep it Strategic:** strategy
- **Keep it Integrated:** people
- **Keep it Controlled:** operative effectiveness

Source: Charan (2005:69) in (Hilb, 2008:173)

Board communication and procedures, “board agendas, the conduct of board meetings “rules of engagement” for board members, and some understanding of how to handle conflicts are important determinants of the ability of boards to provide strategic guidance and oversight” (Bowen, 2008:177).

Another determining factor is the “sequence of information delivery” through hierarchy, which should reach the principal, the board and upper management first, other target audiences only later if judged relevant (Hilb, 2008:177).

Board communication, whether primary, basic or verbal and secondary or additional, should in the interest of good governance also be structured into the formal FO agenda to achieve “the two most important communication objectives… the creation of information transparency and the creation of a culture of trust” (Hilb, 2008:178).
2.5 Summary

The theoretical part of New Family Office Governance was built on the four pillars of the Reversed KISS Principle, the situational, strategic, integrated and controlled dimensions.

This study has researched those dimensions concentrating primarily on the board of directors, and consequently on the board’s importance for establishing, implementing and monitoring FO governance.

Each dimension of the Reversed KISS Principle has been studied separately, but as Hilb cautions: “while the breakdown of corporate governance into simple, central components has analytical relevance for our study, in practice these components are not always clearly delimited. There are a number of overlaps and interdependencies between the factors” (Hilb, 2008:14).

Numerous theoreticians, academics and practitioners from diverse areas of expertise have contributed to formulating and designing regulations for good governance. International preoccupation with this topic during the last decade, but especially after the worldwide economic crisis of the last four years, has engendered a host of best-practice recommendations, and even legislation demanding due diligence governance.

Still governance, and even more so FO governance, may be attained by implementing and controlling the governance framework based on the Reversed KISS Principle and with the board of directors as the guardian ensuring that FO governance will be lived and observed throughout the FO operations and relationships. Then governance will become more than the fashionable ‘word of the day’, but a structure adaptable to the individual requirements of the FO, a structure promising alignment of stakeholders and a successful, monitored and evaluated FO.

This dissertation ascertains the role of the board of directors of an FO by combining this four-pronged approach into a holistic system of governance. If a board of directors follows the precepts of the “Reversed KISS Principle”, then the mission of the board, as warranted by the OECD Principle V, can be optimally carried out: “The corporate governance framework should ensure the strategic guidance…, the effective monitoring of management… and achieving an adequate return for shareholders, while preventing conflicts of interest…”
The situational dimension focused on the external context and the internal context of FO governance. In the external context the situational addresses the underpinning theories that are identified while using the shareholder theory and the stakeholder approach. The national context provided an understanding of global relevance on the basis of legal structures of FOs in Switzerland, due to patchwork families and migration from different countries, specifically also outlining the Swiss CO regulations. The dimension addressed the structure of FOs while providing a brief history of the establishment of FOs and their structure. The internal context focused more on the ownership relationship, with special focus on ownership strategy, and the internal attributes of FOs discussing the family, the operation, the board, and the configuration of the FO. Moreover, a brief introduction of the starting and continuation phase has been outlined while identifying the importance of the vision that needs to be established when creating or continuing a family legacy.

In the strategic dimension of FO governance, a board of directors deliberately targeted for their diversity of expertise and skills will constitute a valuable asset. Provided board and management keep to their designated roles, the board directing strategically and the officer implementing and managing the daily operations, the FO, given a culture of trust, will be successful from the start of strategy development to its ratification and implementation up to monitoring (Hilb, 2006:94).

The third dimension “Keep it Integrated” explored the precepts for an integrated board of directors and consequently an integrated FO. This chapter outlined that an integrated board should establish targeted selection, evaluation and compensation of its directors. Development on the individual director’s level to the board team’s level will result in the intended, integrated board, empowered to strategically direct and monitor the FO in a culture of trust. The advantage of an integrative approach in selection, evaluation, remuneration and development of the board team has been observed.

Individual compensation of the officer as well as board members should be tied to the underlying performance of the entity and be determined over a fixed time frame ranging from three to five years. A long term outlook is adopted to encourage responsible and sustainable performance and returns.

The controlling dimension identified the board of directors’ holistic monitoring function from the perspective of all stakeholders, suggesting that entities conducting an annual audit both internally and externally of all significant processes, including board performance, will result in more effective and efficient entities. Entities that do
not incorporate these mechanisms will increasingly be weakened in the long term. Furthermore, the control dimension should include risk management. As past research shows that without risk management there are numerous examples of boards of directors approving high risk business. Boards engaging, on at least an annual basis, in comprehensive risk analysis, drawing up a risk policy, including identifying risks, assessing their potential impacts on the organization, and outlining risk mitigation strategies, form the foundation of more effective organizations.

In the following empirical part, the respondents’ answers to the questionnaire on ‘New Family Office Governance’ sent out to 200 Swiss based FOs, as well as the results of other empirical studies, will further illustrate the role and influence of boards of directors on their entity’s system of governance.
3 Empirical Section
3.1 Empirical Objective

The introductory section lays the foundation for ‘New Family Office Governance’ as both a prerequisite, and indispensable. This reasoning becomes even more evident in the economic climate of the post-financial crisis, which has seen unmonitored investment practices lost vast amounts of wealth. In some cases there was no evidence of fraud, simply a lack of governance structure entailing negligence in direction, monitoring and control.

This empirical section will translate the system of ‘New Family Office Governance’ developed in the general theoretical part of the dissertation into practically applicable structures, demonstrating the advantages of a holistic and integrated approach for FOs.

In conclusion, due to the high degree of confidentiality required and the considerable amount of capital controlled by the FO, sound governance structure is key for all stakeholders to achieve a high level of satisfaction.

It is the intent of this research to analyze and capture elements that provide better insights into the system of FO governance, particularly by developing a framework for the mechanisms by which a board of directors creates added value to an FO. Following the guideline of the theoretical part of ‘New Family Office Governance’ through the four dimensions of the Reversed KISS Principle, the empirical part studies FO governance of FOs through the situational, strategic, integrated and controlling dimensions. Furthermore, this study analyzes how the alignment of all stakeholders can be forged by a board of directors which strategically directs and holistically controls the FO. It is also of interest to determine how much value an independent board of directors can create in an industry which is not always obliged by law to have a board.

“New FO Governance” also includes an overview of the roles and responsibilities of all stakeholders as well as their interactions determined by this framework. The empirical objective identifies the optimal amount of governance by the board of directors in order to protect family assets, as well as providing a positive intra-organizational relationship amongst the stakeholders of the FO.
3.2 **Empirical Target Participants**

The specific target of this study is the collection of relevant data from FOs. The target group for the questionnaire was limited to FOs working out of Switzerland. Specifically, it is the purpose of this survey to identify governance mechanisms or their absence by questioning the principal or directors of the board. Since this target group is extremely difficult to reach, the preparation of the survey was crucial. This was done in three steps:

- Entry interviews with professionals in the field including lawyers, bankers and consultants
- The identification of 200 FOs located in Switzerland
- The identification of the principal and directors of the board of the specific entities achieved by research, cold calling and referral recommendation

Switzerland was chosen for this study as this country has a high reputation for political and financial stability and therefore provides a desirable location for various international FOs. It is important to note that some of the key stakeholders of the selected FOs live abroad and therefore will complete the survey abroad. A Swiss FO will be defined as having an office in Switzerland. As this dissertation concentrates on FOs located in Switzerland, it is mostly Swiss legislation that provides the legal framework and regulations for those entities.

Even though not all FOs are compelled by Swiss law to install a board of directors, nonetheless the Swiss Code of Obligations illustrates the importance accorded to the role of a board of directors, namely the “ultimate direction of the company” (Swiss Code of Obligation, 2007 Art 716a).

Of 50 respondents to the question: “Do you have a board of directors?” 86% answered positively. However, only 20% of all participants responded to the question. “If your FO does not currently have a board of directors, did it at some point in the past?” The survey did not find any evidence of FOs with a board of directors in the past that had subsequently been removed. Thus it can be assumed that establishing a board of directors accrues such significant benefits to the FO that abolishing the board is rarely considered.
Comparing the responses for questions: ‘Do you have a board of directors?’ And ‘If your FO does not currently have a board of directors, did it at some point in the past?’ indicates that although 14% do not have a board of directors currently, 20% admit never having had one. This leads to the deduction that 6% of the respondents to the survey had, at some time in their FO history, a board of directors. But unfortunately none of the respondents indicated why or when the board of directors was eliminated.

It would be very informative to elucidate the following points: was the board eliminated because of macro-economic circumstances; did the board, in that case a so-called 'puppet-board', not contribute significantly to the FO’s success; or was the board eliminated because of insurmountable personal or task-conflict between the stakeholders?

Even though the respondents did not indicate when and why the board of directors was eliminated, those last two reasons mentioned above were stated off the record, in private talks with two experts from the financial industry who have served on a board that no longer exists.

The legal framework defines FO rights and obligations and regulates questions of liability and eventual redress. This includes taxation which is of utmost importance for any economic entity, especially taxation in the global FO arena, where beneficiaries may be of different nationalities. In order to minimize taxation, avoiding double taxation is perfectly legitimate; tax-evasion is of course illegal.

The empirical target group of the survey on ‘FO governance’ was limited to principals and directors of the board as those stakeholders can be expected to have a holistic overview of their FO. They hold the position of responsibility for designing, directing, and controlling the office as well as their management, their executive officers and staff.

The respondents’ answers allow the researcher an evaluation of the FO’s adherence to the rules of due diligence and good governance as practiced in reality. The lack of even basic governance structures seems hardly comprehensible, especially considering the experiences of the last few years and the financial crisis, which still reverberates through the global economy in all sectors.

Apart from successful risk management and risk control, FO principals and directors will only be enabled to evaluate their FOs and their satisfaction level accurately and concisely if they work within a system of governance.
The selected target group is available for preview in appendix 1. Furthermore, networks such as ‘ask the circle’, ‘bhive’ and ‘asmallworld’ have been used to distribute the survey. Key FO networks such as 'ask the circle' and, ‘bhive’ have not generated any responses, contrary to “asmallworld”, where members of this specific target group who chose not to participate in the survey nonetheless sent an answer with an apology explaining their reasons.

Finally, it should be emphasized that this survey could only be realized thanks to the good will of the respondents who took the time to conscientiously complete the questionnaire. Those respondents who confirmed their interest will receive a summary of the results as a token of gratitude.

3.3 Empirical Research Methodology

The empirical research methodology section includes a general definition of the approach used to conduct the research on FO Governance. Moreover, this section will provide a thorough description of the data aggregation, as well as the analytical procedure on which the findings of the survey are based.

3.3.1 General definition of the empirical research methodology

The Family Office Governance survey has been based on “New Corporate Governance” with its four dimensional Reversed KISS Principle (Hilb, 2004). The data were gathered between April and December 2011. Although the data focused on FOs located in Switzerland, all stakeholders were not necessarily located in Switzerland so the definition: “Swiss Family Office” is debatable. Nonetheless, for this research a Family Office operating out of Switzerland will be considered a Swiss FO.
3.3.2 Data Gathering

This chapter discusses the main method of research used for the FO governance study. A questionnaire as a measuring instrument serves mainly to obtain information that cannot be easily observed or that is not already available in written or computerized form (Remenyi, Williams, Money, & Swartz, 1998:150). Evidence from the FO governance survey is then used for explanatory purposes.

The survey was divided into three stages: the first part was pre-testing; the second part contained open-ended questions; and the third part multiple choice questions.

Pre-testing serves to detect possible shortcomings in the design and administration of the survey (Emory and Cooper, 1991). The pre-testing stage was conducted in Philadelphia at the Wharton Business School at the Sol. S. Snider Entrepreneurial School by submitting questions of the survey to Professors and Visiting Scholars to test for comprehensiveness. As the questionnaire was to be distributed in English it was imperative to address individuals whose English language skills were sufficient to avoid any ambiguity in the survey’s understanding and subsequent responses. The pre-testing group consisted of twelve people from ages 27 to 60+. The main native languages of the participants included Italian, French, German, and Chinese.

In addition, to test for content, four professionals of the financial sector who work extensively with FOs’ were asked to rate the questions as to importance. This was done by personal interviews, mainly by asking the following questions:

- Do you understand all the questions asked?
- Which of the questions do you find the most interesting?
- Which question provides, in your opinion, most insight into the working of an FO in a comparison study?
- Which questions are redundant?

A combination of open-ended and closed questions was used for the survey. The open-ended questions were intended to allow the respondents to express their personal statements rather than suggesting possible answers.

The disadvantage of open-ended questions appears when the respondents are required to articulate each answer, since their willingness to spend time on giving a full answer impacts the survey. Closed questions were designed from deducted assumptions and
detailed theoretical knowledge already available, but not yet researched in this specific context. For example, previous studies identified the main areas of required expertise for FOs in regards to the Americas, Europe and the rest of the world. In this research the main focus is Switzerland; therefore a closed question was used to narrow and analyze the areas of expertise on a Swiss basis.

Conducting surveys with stakeholders of FOs (from the executive level), such as directors of the board and principals, can facilitate an analysis of the intra-organizational relationship in the FO. However, the following question: “Was a personal or task conflict observed in the FO?” could have jeopardized the study or provoked dishonest answers due to privacy considerations, the confidential nature of the FO, and the natural reluctance of family members to openly discuss internal conflicts. Therefore, the sequence of the questions played a significant role. In general, it is found optimal to structure the questions conducive to the participants’ answers within the topic (Remenyi, Williams, Money, & Swartz, 1998:156). The questionnaire survey on FO governance places general questions first, followed by easy questions early in the survey, saving more challenging questions which participants might hesitate to answer until later. Moreover, to ensure that the survey was not too long or redundant, filter questions were used so participants only had to answer relevant questions.

The questionnaire survey “Family Office Governance” was distributed by an electronic website and the link was available anonymously. As the pre-test questionnaire survey showed, most participants were more likely to answer the anonymous link, identifying themselves only when providing the contact information. The anonymous link was sent to the target group via email.

3.3.3 Analytical procedure

Taking into consideration the strengths and weaknesses of multiple research procedures and the inherent insistence on privacy that characterizes all FOs, a combination of the following approaches was necessary to achieve a robust amount of quantitative and qualitative data from both archival, and field study research.
a) Archival research

Archival research designates the searching, sorting and organizing of documents. The main form of archival research was done through the use of electronic data and storing these electronically. Particularly useful archival data was gained from relevant journals and newspaper articles. The library of the Wharton Business School at the University of Pennsylvania provided most of the publications helpful for this research.

The quest for concrete information on FOs can be challenging since little hard data is available. This form of research was carried out by analyzing previous publications and comparing this data with data collected by field studies and the primary data collected via questionnaire.

b) Field study

Field study research involves collecting primary information. The specific purpose of using field study research was to assemble “new” data on FO governance. In particular, this was achieved by attending specific conferences and conventions. Interviewing principals, directors of the board, officers, beneficiaries and professionals from the FO industry illustrated actual problems and allowed greater insight through anecdotal data. These informative talks permitted the interviewees to be more candid about the preoccupations and conflicts regarding their FOs.

c) Revelatory study

The study from 2012 ‘Family Reward’ by Campden FO, in association with the executive search firm Sulger Buel & Company, surveyed 25 FOs located in the United Kingdom and Switzerland as to FO’s executive compensation. Even though board compensation was not researched, this study yielded information on usual FO compensation for its executives by citing concrete salaries.
## Informative Talks with Professionals

<table>
<thead>
<tr>
<th>Participants</th>
<th>Family Office Industry</th>
<th>Date</th>
<th>Location of the Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof. Amit, Raphael</td>
<td>Wharton Business School</td>
<td>During visiting scholar year from September 2010-September 2011</td>
<td>Philadelphia, USA</td>
</tr>
<tr>
<td>Bauknecht, Gero</td>
<td>Bauknecht Family Office</td>
<td>21. April 2010</td>
<td>Zurich, CH</td>
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<td>Graf von Zech, Louis</td>
<td>BHF-Bank Verwaltungsrat</td>
<td>20 October 2009</td>
<td>Frankfurt, Germany</td>
</tr>
<tr>
<td>Lebel, Marc</td>
<td>Vimeo</td>
<td>30. January 2012</td>
<td>Frankfurt, Germany</td>
</tr>
<tr>
<td>Lowenhaupt, Charles A.</td>
<td>Lowenhaupt Global Advisors and Lowenhaupt &amp; Chasnoff, LLC</td>
<td>Several personal, phone and email communications from November 2009 through 2012</td>
<td>London, U.K.</td>
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<td>Trone, Donald B.</td>
<td>3ethos</td>
<td>Phone conversation, February 2012</td>
<td>Frankfurt, Germany</td>
</tr>
<tr>
<td>Pendelton, John</td>
<td>CCC Alliance</td>
<td>November 2010</td>
<td>Philadelphia/ New York, USA</td>
</tr>
<tr>
<td>Prof. Prince von Liechtenstein, Heinrich</td>
<td>IESE Business School</td>
<td>25. April 2010</td>
<td>Barcelona, Spain</td>
</tr>
<tr>
<td>Prinz, Roger</td>
<td>Spectrum Value Management</td>
<td>24. June 2011</td>
<td>Zurich, CH</td>
</tr>
</tbody>
</table>
The target group for the survey on FO governance was limited to Swiss FOs, as explained above.

The names and addresses were researched and selected via publicly available search engines such as Google, and Hoovers, as well as private networking platforms including aSmallWorld, LinkedIn, and Bhive. Moreover, lists of Fortune 500 richest people and Fortune 500 for family businesses have been carefully searched for FOs that would fit the sample group. Personal references have helped with the data collection by providing initial introductions to various FOs. As there is not a specific number available of the total of FOs in Switzerland, the collected data from public sources and networks provides a narrow understanding but by no means demonstrates a total or absolute overview of FOs in Switzerland.

Personal interviews with professionals from the FO industry, as well as talks during conferences and interviews led to new contacts and referrals. They proved very helpful, sometimes positively influencing respondents’ willingness to participate in the survey.

The ‘Family Office Governance’ survey was sent to 200 FOs. The appendix: Sample Group of the ‘Family Office Governance’ survey lists the 200 recipients. Out of the 200 selected FOs, 77 surveys were returned electronically. However, only 62 surveys were identified as valuable for the analysis. The remaining 15 surveys needed to be eliminated as they had been returned unanswered, and five questionnaires were answered in bastardized Latin.
Apart from the survey ‘Family Office Governance’, the attendance at the above mentioned conventions and personal meetings proved a rich source of information. In one-on-one talks, and off the record, some FO stakeholders and professionals working in this industry overcame their reluctance and shared their concerns, especially in the field of governance. Most admitted that even though their office would declare to be concerned with governance, practically they lacked all tools or structures to guarantee good governance. Some realized, that governance is not merely an ethical idea, but that it needs practical structures, benchmarks, functioning systems of communication, and internal as well as external control mechanisms, in short: the framework of this dissertation ‘New Family Office Governance’. Where governance genuinely transfers from theory into practice.

The most important conferences and their relevant themes and topic discussed are listed subsequently:

**Campden European Family Office Conference**

**November 2009, London UK**

In view of the financial disasters and the melt-down of the markets, the Campden’s European Family Office Conference in London, November 2009, dealt with the “post-crisis FO sphere in a changed economic environment”. In a rapidly changing regulatory and globally mobile environment, principals, directors and top executives were mainly interested in the increased complexities of risk assessment and risk management. Restructuring their family offices and streamlining to be more cost effective was also accorded high consideration.

The topic of due diligence received heightened attention after recent wrongdoings from biased advice to downright fraud. Due diligence, one of the pillars of good governance, should result from a multifaceted process. ‘New Family Office Governance’, offers the framework for establishing this process holistically.

In a “Principals only” session, the distinction between the needs and expectations of principals and FO executives was discussed, as well as the development of SFOs to MFOs, which is sometimes undertaken to curb costs and to enlarge investment funds by pooling resources. Often it seems that this evolution starts with some ventures of co-investment. Still, the future of the FO was aptly quoted as “Adapt and thrive, or merely survive” (Campden FO Publishing, 2009).
Morten Ahlström, from a family with the experience of 160 years of industrial operations, spoke clearly and precisely about his view on what it takes to achieve a successful FOs:

- Manage/control your destiny
- Steer the whole value creation chain
- Always improve/simplify
- Choose the right people with the right attitude “agility, energy, competence”
- Focus on what to STOP doing
- Focus on what you do best, outsource the rest

In addition, the Campden Family Office conference 2009 focused on lessons learned from the financial crisis, outlining the new challenges and opportunities post financial crisis. Rising market powers such as China and India in relation to the USA were examined from an investor perspective. Further topics including the vitality of democracy, the new trend of environmental focus, especially on water as a rare resource, and currency fluctuations were discussed. The Campden European Family Office 2009 also outlined the Institute for Wealth Management Standards (IWMS) which are intended for the management of significant wealth, providing private wealth holders with a policy statement which “is intended to serve as an outline and framework for a procedurally prudent wealth management process” (Lowenhaupt & Trone, 2012:221).

The Private Wealth Policy Statement (PWPS) includes, among other precepts, a statement of principles as to duties and responsibilities, and an ethics statement regarding custodians, fiduciaries, and managers. Special consideration is given on monitoring procedures (Lowenhaupt & Trone, 2012:221).

The Poultney Conference

June 2010, Zurich Switzerland

The participants at the Poultney Conference, aged from their late twenties to forties, are selected on a common interest network basis. An invitation is only sent out if the
organizers receive a personal reference and decide that the selected individual will add value to the group by his/her personal or professional expertise and experience.

The two founders of the Poultney Conference come from the FO sector. Tired of conventions with a sale purpose, they decided to create a private network for wealthy individuals offering an international forum to meet and exchange information and ideas relevant to their socio-economic situation in an atmosphere of insider’s privacy.

The two founders are George Brett, a well-respected entrepreneur from the UK, whose family runs their own FO, and Stefan Hofmann, a Swiss finance expert with many years working experience in the FO industry.

Some of the participants are also key speakers on a rotational basis. Some of the topics discussed during the two day seminar range from Professor Heinrich von Liechtenstein’s ”Academic Learning’s from Family Office Experiences” to James Brett’s: “A different Way of Collecting Art.” Professor Liechtenstein teaches at the IESE Business School at the University of Navarra, Spain. James Brett introduced his entrepreneurial way of establishing one of the world’s most unique art collections.

The US philanthropist Liesel Pritzker reported on traditional versus venture philanthropy with particular focus on her project of building schools in Ghana. Sach Chandaria, with roots in Africa, informed the participants about his FO endeavor: “Africa and Family Business” underlining the big difference of investing in a less regulated and forcibly less stable and secure economic and political environment.

Apart from the economic and political risks of the Greek crisis and its repercussion on the Euro, the speakers covered many interesting subjects. A very personal and candid talk by Cristobal Perdono: “South America and Family Business”, warned of a family fortune easily lost without consensus on strategy and risk tolerance, and without a structured communication system. He spoke about lack of governance leading to wealth atrophy. He confirmed once more how crucial the implementation of good governance structures proves to be to an economic enterprise and by extension to an FO.
The Poultney Conference
June 2011, Zurich Switzerland

The Poultney Conference 2011, also held in Zurich, was again an exclusive invitation-only conference. The participants were a limited selected group of young international UHNWIs. The group discussed timely topics such as ‘The Security Situation in Mexico,’ ‘The Singapore Water Story” explained by Thomas Pang and “Leadership Experiences Russia: From Dirty and Mean to Clean and Green.” Boris Collardi represented the new Russian idealism, ready to use one’s wealth and status for environmental and social improvement.

The most instructive lecture of this conference was “Performance Psychology” by Martin Jenkins. The expert on human behavior from Harvard and Cambridge University described his ground-breaking work on performance psychology by talking about the professional elite athletes he coaches. As the founder and CEO of Oxford Place, he and his team advise wealthy global families on successful wealth transition by building trust and communication, thus empowering those families to ‘align around a set of shared values’ and use the key element for wealth transmission to the next generation, namely ‘strengthen the family’s human capital balance sheet.’

Martin Jenkins’ empirical research lists four areas of wealth transition planning which lead to failure if they are not considered in time.

- Breakdown of trust and communication: accounts for 35% of all unsuccessful wealth transitions
- Failure to effectively prepare heirs: accounts for 30% of failures
- Ineffective governance with no cross-generational support for representative decision making: accounts for 20% of failures
- Lack of a Family Wealth Mission Statement, lack of consensus on the vision and mission of the family: accounts for 10% of failures
Attending the Campden European Family Office Conference, London in November 2011, presented an opportunity to learn about the actual concerns and problems in the FO sector: “The Thirteenth Private Meeting for Family Principals and Family Office Executives to discuss Issues Critical to the Family Office Sphere”. Irrespective of its title a European conference, the delegates, speakers and attendants came from across the globe.

The atmosphere of confidentiality generated by careful and selective screening was conducive to learning more about the very private FO sector than principals, managers or directors of the board are usually prepared to divulge.

As expected after the last four years, which catapulted world-wide booming economies into recession, loss of enormous wealth by fraud, spiraling bad investment decreasing liquidity, the subprime crisis and bankruptcies threatening countries like Greece, one of the main topics was “Redefining FO governance to thrive in challenging times.”

Apart from the obvious conclusion of the need for better risk management approaches and judicious structures of wealth management, there appears to be now more eagerness to consider leadership transition inside FOs, not only concerning directors of the board or executives, but also the next generation of principals and beneficiaries of the FO.

However, since not every member of the younger generation is necessarily interested or capable of understanding economic or financial facts of the family business interests or investments, it is evidently imperative to groom them for their future role as investors and managers and preservers of the family’s wealth and their FO.

One of the principals of an FO explained his solution to this problem by getting the siblings of the younger generation interested in a common project of impact investing. As they were united in their shared concern for a certain endangered species, they started working together, aiming to raise resources to be able to save those animals.

Apart from uniting different family members in a common endeavor, and learning about finance, investment and budgeting, impact investing by the next generation also furthers their interest in their FO. They realize that their wealth can also be useful in realizing their concerns and they learn to deal with their human and social responsibility.
The Nexus Summit 2011
August 2011, New York USA

The younger generations of families with FOs are currently getting more involved in impact investing as well as sustainable investing. Known as ‘Generation We’ or the ‘Millennial Generation’, they focus on political, social and philosophical matters. Eric Greenberg and Karl Weber addressed how “Generation We” can re-orient issues of poverty, war, and pollution. ‘Generation We’ strive beyond writing big checks for philanthropic causes but directly get involved, such as Liesel Pritzker Simmons, who is the Vice President and Director of program development for the IDP Foundation, Inc. Established in 2008, the IDP Foundation Inc. supports various programs in the education sector. For example, one of the most notable innovations was the IDP Rising Schools Program in Ghana, where Liesel Pritzker Simmons was directly involved in the microfinance of networks to empower low-cost private schools by providing training and financial services (Philanthropy Forum, 2012).

A relatively new concept of investment strategy, depending on the family’s world view and vision calls for “certain criteria for improving the world” (Lowenhaupt & Trone, 2012:62). Socially responsible (or responsive) investment (SRI), mission-based investing (ESG) focuses on environmental, social and governance, sustainable investing, and economically targeted investing (ETI) are the new trends (Lowenhaupt & Trone, 2012:62). Whatever investment strategy an FO decides on, “today due diligence is the gold standard of investment management” (Lowenhaupt & Trone, 2012:64).

As some bad experiences have demonstrated, in the FO sector as well as in family business enterprises, there is no successful estate planning, no positive succession and transmission of family wealth without preparation of the younger generation for their prospective role and responsibilities by education, financial education, and by awakening their interest through impact investing. Otherwise, as David Lladro said at of the FO the Campden Conference of November 2009 in London: ‘Sometimes family members can be the problem, not the solution’.
3.3.4 Limits of the empirical study

For research of the FO sector, particularly empirical research, the main limitation lies in the confidentiality walls of this industry. Confidentiality, together with the preservation and transmission of family wealth, is the primary reason for all principals creating their own FO.

A further limitation in the empirical part constitutes the aversion of interviewees to agree to be identified when quoted. Considering that privacy and confidentiality are the top FO objectives, the number of respondents willing to participate in the survey was gratifying and deemed sufficient to gain a picture of the inner working of Family Offices.

Unfortunately, the empirical study could not be considered complete, as there are no hard financial data available. Furthermore the answers to the survey are the main source of information as to the interaction between stakeholders and the workings strategies and procedures of the different FOs.

It is regrettable, but of course characteristic for this industry’s privacy concerns, that no possibility for empirical observation of board meetings, of strategy discussions, or even simple assemblies is granted. Therefore, the two important benchmarks of the survey on ‘Family Office Governance’ remain the respondent’s satisfaction level with their FO and with their board. Some answers to open ended questions, especially the candid ones, provide a more personalized individual picture of stakeholders’ opinions and preoccupations.

The judicious use of interesting information, which may not be attributed to a specific person for reasons of privacy, constitutes a considerable hurdle in a scientific economical study.

Outside observers encounter an impenetrable shield guarding relevant financial information on capital, assets, returns and/or losses as well as on dividend pay-outs, remuneration of stakeholders and employees, and on eventual bonus modalities or other incentives, such as the opportunity of co-investment. Furthermore, most stakeholders of an FO, whether directors of the board, principals or beneficiaries, are reluctant to answer questions concerning disagreements, personal conflicts and task conflicts. This lack of transparency shows a laudable loyalty and protectiveness of privileged information, but this lack of transparency and the absence of accessible and reliable information on most relevant aspects of an FO obviously impacts negatively
on the empirical study, leaving only the possibility to extrapolate some of the respondents’ depositions by comparing the questionnaire’s results with those of other studies.

However, also in the gathering of information, limitation is seen quite frequently in this industry. In particular, this is due to the time and cost constraints that such a study with a narrow research budget faces. As it is impossible to observe board meetings or even discussion sessions on strategy, the interpretation of how the FOs view themselves is left open, with the satisfaction level as the only benchmark.

Moreover, the current timeline also entails the limitation of not permitting observation over a long period of time. Therefore, outside scope to observe how an eventual implementation of governance structures changes perceptions of performance proves impossible.

3.4 Empirical Results

The Empirical Results Section illustrates the different concepts that have been presented in the General Theoretical Part. The results in this section are based on the survey: ‘Family Office Governance’, which examined specific areas discussed in the general theoretical part. In order to provide a comprehensive analysis, specific reports and research papers will also be referenced in order to provide an unbiased overview. Those results, demonstrating a surprising universal lack of governance structure, underline the theoretical and practical importance for the implementation of ‘New Family Office Governance’ based on the Reversed KISS Principle.

3.4.1 Keep it Situational

As outlined in the theoretical section of the dissertation, the situational dimension presents an overview of the external and internal context. The empirical section will explain, based on the results obtained by the survey ‘Family Office Governance’, the current situational context of Swiss FOs. The first few questions asked in the survey are structured to primarily access the situational context. Divided into external and internal context, the complete situation of an FO is clearly indicated.
a) External Context

The external context of the first dimension ‘Keep it Situational’ focuses on institutional, national and organizational perspectives. These perspectives determine the place of the FO in its economic and political as well as cultural environment which in turn will decide on the FO’s legal, compliance, and cultural obligations and guidelines (Hilb, 2009:9). The institutional context, based on stakeholder theory, treats the multilateral needs of internal and external stakeholders. The governance attributes demanded in the stakeholder theory serve as parameters for analyzing the current situation the entity is experiencing. When the external and internal situational dimension of the entity is understood, a multilateral concept fostering positive inter-organizational relationship amongst the internal and external stakeholders can be established. The concept of ‘New Family Office Governance’ sees the board of directors as the instigator and guardian of the necessary governance attributes.

In the national context, the empirical part defines the different legal structures of FOs established in Switzerland. Out of the sample group of 200 FOs, 149 FOs showed some sort of indication of their legal structure in their registered legal name. More than half of the FOs from the sample group and the respondents registered as AG/S.A or Ltd.
The decision to establish an FO in Switzerland rather than in another country is determined by various reasons. Some families saw the necessity to relocate or open another office due to geo-political and economic turbulences in recent years, others out of personal preference. Due to its stable political and economical environment and the strong financial sector, Switzerland is considered the optimal location. Another attraction for the location of FOs in Switzerland is the assurance of stable legal- and tax-regulations which in addition cover the businesses of foreign residents. This climate of continuity and reliability not only promises a safe haven from political upheavals like those experienced recently in the Middle East or some Latin-American countries, but also assures that UHNWIs do not find themselves confronted suddenly...
by disadvantageous changes in tax legislation, like for instance those concerning foreign residents in the UK.

Finally, all families who ever had to flee their home countries and become refugees, either for political or economic reasons, have learned to search out a secure jurisdiction. “Wealth is for protection and freedom to move wherever and whenever the need arises” (Lowenhaupt & Trone, 2012:54).

The ‘Family Office Governance’ survey showed that FOs have different legal structures, as families with residences across the globe who established an FO in their home countries saw the competitive advantage of establishing an additional office in Switzerland. Some of these FOs use the primary office in their home countries for concierge services or administrative purposes and the office in Switzerland as the main office for their strategic financial operations. Some offices do not consider themselves an FO but rather a consultancy for the family or a family business that includes services catering to the needs of the family.

This, in particular, was astonishing in view of the pre-selection criteria: “an entity established by one family and serves this family in estate planning, legal services, asset protection, cost control, financial education, and family philanthropy” (Pompian, 2009:261).
Although globally active, the FO industry occupies by its nature a small market sector. Various external factors such as family considerations, economic and legal factors and even diverse business interests influence the specific strategic decision-making of its operation. These factors also condition the organizational constitution of different FOs. Industries as well as families are not static and they experience relocations as well as changes in structure.

The institutional context, as explained in the theoretical section, encompasses the different family offices in the market and their relative client expectations. The optimal configuration guaranteeing maximum confidentiality and custom-tailored solutions for a specific family is the SFO. However, a basic question is whether the assets of the family are sufficient to comfortably run a full-service FO.

The growing number and complexity of a family result in increased costs, simultaneously decreasing the benefits for the individual stakeholders in the FO. The Bessemer Trust in the USA was the first SFO to expand into a MFO in 1974. The change in structure originated from the following considerations: to expand the pool of

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**Survey's Respondents' Legal Structure of their FO**

![Bar Chart](chart.png)

**Legal Terms**

Figure 22: Survey Respondents' Legal Structures of their FO

Source: Author
resources available to investment allocation and to defray operation costs. Thus, this SFO decided to “offer management and other services to wealthy families outside the family of origin who needed a family office but whose assets were not large enough to afford one of their own” (Gray, 2004:24)

The growing diversity of business interests and other challenges like new investment vehicles or regulatory changes, or the up-keep of state of the art communication structures are highly cost-intensive.

In order to defray costs and to expand the pool of assets, the survey further found that 29% of SFOs offer some co-investment opportunities for non-related families. These offices use a mix of in-house resources and external service providers. However, participants clearly indicated that ‘value-added services’ like investment allocation are kept in-house (UBS/Campden Research, 2011:11). The report also focused on the post-crisis trend demanding “real” returns, more transparency, as well as more active management and monitoring of investments. To keep their overhead costs low, a number of FOs combine their resources and replace fund investing with consortia, so-called “club deals”, gaining economies of scale (UBS/Campden Research, 2011:82).

It has been globally observed that the more generations that follow after the establishment of the FO, the less they are interested in actively taking part in managing their FO (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2008).

The organizational context of FOs is not easy to determine, as most FOs were founded to protect the wealthy family’s privacy. By establishing their own FO a family can expect confidentiality and exclusivity in the counseling as well as wealth preservation strategies specifically tailored to the requirements of the principal and beneficiaries of the FO. One important consideration for many principals is not to be merely one among many clients of the professionals advising them on investment legal and tax matters.

As every family is different by their origins, their history and the way they acquired their wealth, so every family has a different outlook and cultivates different values. Ergo, the legacy they intend to build for the future generation will be colored by those factors. Creating a legacy should not be misunderstood as pretentious, rather it should be understood that a legacy will guarantee a feeling of familial community for the future generations, who will of course be much more numerous and maybe not as close as the founding generation. Therefore, a legacy continuously accepted and adopted will be beneficial not only to family governance but also translate to governance for the FO.
b) Internal Context

The external context determines greatly the internal context of the FO’s situational context and dimension. As national culture shapes the culture of a family and by extension the FO, it will also impact the internal context.

The internal context of the situational dimension of FO governance illustrates specific ownership dynamics. In this section, empirical results will illustrate the advantage of combining the stakeholder theory with the ‘shareholder approach’.

The survey ‘Family Office Governance’ measured respondents’ satisfaction with the board of directors and their satisfaction with the overall FO performance. When comparing the results of the data collection, a strong correlation between the overall FO performance satisfaction and board satisfaction is demonstrated.

None of the participants have selected the option stating to be ‘very unsatisfied’. However, all the participants ‘somewhat dissatisfied’ with the board performance also indicated that they are ‘somewhat dissatisfied’ with the overall performance of their FO. 33.33% of participants who felt ‘neutral’ about the satisfactory level of the FO performance also felt ‘neutral’ about the satisfaction level of the board. Moreover, 16.67% of FOs admitted to be ‘somewhat dissatisfied’ with the board performance as well as being ‘neutral’ concerning the FO performance. However, an increase in satisfaction was seen at the board level, when participants declared to be ‘satisfied’ or ‘very satisfied’ with the FO performance. None of the participants who felt ‘very dissatisfied’ or ‘somewhat dissatisfied’ with the performance of the board were also ‘very dissatisfied’ or ‘somewhat dissatisfied’ with the overall FO performance. Interestingly, more participants indicated feeling ‘neutral’ about the board performance whereas the overall FO performance was viewed positively.

Participants stating to be ‘somewhat satisfied’ with the FO performance or ‘very satisfied’ with the performance, proportionally also were ‘somewhat satisfied’ or ‘very satisfied’ with the board performance. However, a relatively small proportion of participants felt ‘somewhat dissatisfied’ or ‘neutral’ about board performance but still they were ‘very satisfied’ with the overall FO performance.

If overall FO performance is rated as ‘very dissatisfying’ or ‘somewhat dissatisfying’, the satisfaction level with the board performance stays equally ‘very dissatisfying’ or ‘somewhat dissatisfying’. The percentage of participants ‘very satisfied’ with the
overall FO performance increases in direct relation to the satisfaction level of the board performance.

The ‘Family Office Governance’ survey illustrates that in order to increase the level of satisfaction of the overall FO performance; the satisfaction of board performance needs to be increased.

In conclusion, the level of overall performance satisfaction of all stakeholders increases when satisfaction with the board performance increases as well. The level of overall performance satisfaction of all stakeholders decreases when board satisfaction decreases.

As illustrated in table 12: board satisfaction and overall FO performance satisfaction are positively correlated.

Jensen (1993) established a direct relation between the quality of a board of directors and the entity’s performance. He saw the board’s final responsibility as being that of monitoring the firm’s internal control.

However, if the board is to assume the overall control function, then the directors should start at the beginning, with strategy, risk policy, and only then is a complete overview possible.

In view of this conclusion an evaluation of the board, which calls for diversity of skills and expertise as well as background and gender, seems advisable on the foundation of FO governance.
### Board Satisfaction and overall FO Performance Satisfaction

<table>
<thead>
<tr>
<th>Overall FO performance satisfaction/ Satisfaction with the board performance</th>
<th>Very Dissatisfied</th>
<th>Somewhat Dissatisfied</th>
<th>Neutral</th>
<th>Somewhat Satisfied</th>
<th>Very Satisfied</th>
</tr>
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<tr>
<td>Very Dissatisfied</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Somewhat Dissatisfied</td>
<td>0</td>
<td>100%</td>
<td>16.67%</td>
<td>11.76%</td>
<td>4.55%</td>
</tr>
<tr>
<td>Neutral</td>
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<td>0</td>
<td>33.33%</td>
<td>17.65%</td>
<td>0</td>
</tr>
<tr>
<td>Somewhat Satisfied</td>
<td>0</td>
<td>0</td>
<td>50%</td>
<td>64.71%</td>
<td>27.27%</td>
</tr>
<tr>
<td>Very Satisfied</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5.88%</td>
<td>68.18%</td>
</tr>
</tbody>
</table>

Table 12: Board Satisfaction and Overall FO Performance Satisfaction

Source: Author

Principals and directors of the board who also fill the role of officer deprive themselves and the FO of the instrument of good governance which only an independent board can provide. The accumulation of those different functions obstructs any possible objective evaluation and monitoring of the FO’s performance. Also, the board loses its most critical attribute, independence. According to the data collected by the ‘Family Office Governance’ survey only 3.85% of respondents indicated that one person holds all positions. Such FOs do not show a balance of power on the level of management and control but ‘a one man show’ syndrome which ultimately sabotages all checks and balances necessary to achieve good governance.

Moreover, 86.54% of participants that answered the ‘Family Office Governance’ survey have indicated that they hold the role of principal or director of the board. 46.16% of stakeholders surveyed hold more than one position in the FO, illustrating that a number of roles are inter-linked; however, the majority of FOs maintain clear separation between different roles.
The model clarifies the FO stakeholders’ special relationship dynamics. A person in sector 5, for example, director of the board who is also a beneficiary but not an officer or principal, might argue that the FO should pay more dividends to the beneficiaries. These stakeholders might be at odds with someone in section 7, an FO officer who
manages the philanthropic projects and who happens to be the mother of the specific person in section 5.

The model assists in the resolution of differences by sorting out the personal from the professional conflicts. In case of opposition, when critical decision-making is necessary, this model helps to identify the specific stakeholders’ roles in the FO operation. Determining the stakeholders’ emotional attachments is another step in establishing overall alignment of stakeholders’ interests.

Only 12% of the respondents of the questionnaire ‘New Family Office Governance’ had no board of directors, 88% of the respondents declared having a board of directors. Out of the 88% respondents with a board of directors, 84% stated to be ‘very satisfied’ or ‘somewhat satisfied’ with their FO performance. But 5% of respondents with a board in place suggested being ‘very dissatisfied’ or ‘somewhat dissatisfied’ with their FO performance.

### 3.4.2 Keep it Strategic

The strategic dimension of the specific empirical part in ‘New Family Office Governance’ covers the strategic direction and strategic monitoring of the FO entrusted to a board of directors. To be effective, the board needs directors with diverse but equally valuable expertise, covering the important strategic objective areas. Particularly for the development of strategic direction and strategic monitoring, it becomes indispensible to ascertain that the board of directors shares common ground. The specific empirical part will illustrate how a well-defined strategic plan can mitigate conflict and create the alignment of all stakeholders’ interests.

This goal can only be attained by assembling and implementing the skills and attributes conditional to achieving good governance in the family, on the board and finally for the FO. Specific necessary governance requirements that have been tested in the strategic direction context are: leadership, education and composition of the board. Governance components that have been tested in the strategic monitoring context include: diversity, trust, networking and vision of the board.

In this section, the different strategic direction and strategic monitoring mechanisms consequently used and their contribution to the overall satisfactory level of the FO will be explained.
Daniell (2008:211) interviewed wealthy families to determine their main concerns about risks to family wealth and family harmony. He lists the following topics to be considered:

- Family legacy
- Family governance and decision-making
- Family relationship
- Investment performance
- Family business leadership
- Fiduciary exposure
- Family dynamics in business
- Family reputation
- Personal ownership responsibility
- Legal exposure

Source: Daniell (2008:211)

Research suggests how the importance accorded to the implementation of annually determined strategic goals directly affects the level of overall FO performance. 80.95% of respondents of the ‘New Family Office Governance’ survey who expressed to be ‘very satisfied’ had determined a list of goals for each year. On the other end of the scale, 100% of respondents who declared to be ‘somewhat dissatisfied’ did not define a list of goals annually.

66.66% of respondents who felt ‘neutral’ about the satisfaction level of the FO had a well-defined list of goals for each year; contrary to 33.33% who did not. The survey has shown a rising level of satisfaction in correlation to an annually determined well-defined list of goals.

The apparent contradiction of respondents with a well-defined list of goals but declaring themselves ‘neutral’ as to the satisfaction level of their FO can be explained by the respondents’ reluctance to admit negative opinions. This is reinforced by the
fact that none of the respondents were ‘very dissatisfied’ with their FO whether or not they had defined a list of goals annually.

Also the neutrality of the satisfaction level could originate from other concerns apart from the availability of an annually well-defined list of goals. This could lie in insufficient evaluation and monitoring of the goals, since obviously there are no benchmarks available, or may be due to other points of contention which will be discussed in the relevant dimensions. Finally, the advantage of an annually determined list of goals is proven by the overwhelming number of respondents (80.95%) who indicated having a list of well-defined goals for their FOs and expressed to be ‘very satisfied’ with their FO performance.

Moreover, all respondents who expressed to be ‘somewhat dissatisfied’ with the FO admitted also to not having a well-defined annual list of goals. The higher level of satisfaction correlating with the establishment of an annually determined list of goals allows the conclusion that successful direction and monitoring of the FO performance is impossible without a previously determined list of goals with equally determined time parameters setting the milestones for evaluation and monitoring.

Gersick, Lansberg and Davis (1990) have stated that the most severe intra-family relationship conflict happens when the ownership relationship is negative. Research revealed conflicts between siblings to be the major problem, especially after the founding principal is no longer involved in the FO. It appears that managing an FO can be more difficult than resolving conflict in a family enterprise. If no conflict resolution can be agreed on, there may even be a split of the FO, as happened to an FO where five siblings could no longer find common ground. The conflict resulted in two brothers separating from the FO and founding their own when their values and ideas on operating the FO no longer correlated with the original FO. Instead of infighting and so impairing their FO’s performance and tearing a close-knit family apart, the two brothers accepted the situation of divergence of convictions and resolved the conflict by setting up their own FO according to their own values and new mission. Over the years other family members also changed their mind and decided they preferred to join the new FO. Although the family now has two separate FOs, this conflict resolution allowed the family to maintain harmonious relations, and the siblings can each follow their ideas and go their own way in two separate entities.
The result of the survey ‘Family Office Governance’, as illustrated above, has illustrated the link between the level of satisfaction and the annual establishment of a well defined list of goals. Furthermore, the evidence shows a very high correlation between board satisfaction and overall FO satisfaction. This also allows us to deduce a high positive correlation between good governance on the board level as evidenced by a predetermined list of goals, and good governance for the FO leading to a high satisfaction level with the FO.

Figure 24: Level of FO Satisfaction in relation to annually well-defined list of goals

Source: Author
The strategic direction mechanisms propose strategic thinking and operating for improving the FO’s efficiency encompassing all stakeholders. In order to establish strategic direction, mediation techniques through leadership, educational tools and communication structures should be available.

In answering the following question: ‘Do you feel that expertise at the board level is represented?’ 45% of respondents felt that expertise at the board level covering information aggregation and reporting was represented. Relating to the question: ‘Does the family office proactively organize any of the following programs for its members?’, only 32% of Family Offices claimed to proactively organize communication programs. Still, only 13% declared themselves “somewhat dissatisfied” with the communication mechanism in the FO, against 27% “somewhat satisfied” and 46% “very satisfied”. Only 4% were “very dissatisfied”.

In times of good returns usually less conflict occurs. In times of financial crisis various FOs experience discord between shareholders. This situation can quickly develop from a task conflict to interpersonal conflict and may even result in an intra-personal relationship struggle, in particular a power struggle in the family. At this crucial moment, if the FO does not follow precepts of good governance for conflict resolution, the decision of some family members to found a separate FO can be a difficult experience. The entire family and their wealth ultimately will suffer. The standard deviation of personal conflict and task conflict provides a sufficient range to assess that when task conflict occurs the overall satisfaction with the FO remains still higher than in case of personal conflicts. When conflict between stakeholders of an FO cannot be resolved by the feuding parties often third-party arbitration will be helpful, as illustrated in the survey on FO governance.

The ‘Family Office Governance’ survey found that 79% of participants indicated that they did not witness any conflict between board members that they felt was NOT resolved constructively. However, 21% of participants did witness some conflict that they felt was NOT resolved constructively.

Moreover, participants who experienced conflict in the last 12 months indicated that the conflict resolutions they found most helpful were communication mechanisms such as ‘strategy communication decision’. Third party involvement has also proved to be extremely useful.
One respondent summarizes his FO’s conflict resolution mechanism in three steps, as following:

- Acknowledging the conflict
- Setting aside an agreeable time and place to deal with it
- Showing up and being honest about both sides of the issue, and in some cases having the outside opinion of a consultant to smooth out any major points of contention

Source: ‘Family Office Governance’ Survey

Five answers indicated that discussion was one of the main tools for conflict resolution such as: “Discussion, Discussion, Discussion” or “discussion, principal's directive, resolution”

Two respondents first step to conflict resolution was to analyze the problem such as: “Analyze, Discuss, Resolve” or “Analysis, Conflict Mediation, Resolution”

Other participants handled conflict resolution more drastically by “Put out the problem, [dismiss] family member” or “Express my dissatisfaction, Indicate resolution, If unsuccessful resolution, Dismissal”

Another answer described the following situation: “The board became more powerful, increased amount of team work, change in management, and increasing amount of external expertise have been introduced” (Family Office Governance Survey 2012). Another solution was the referral back to the “shareholder agreement”. This shows that there is a lot of unresolved conflict that FOs do not productively address. If unresolved, the conflict, whether interpersonal or task conflict, may lead to a negative intra-organizational relationship.

When a high amount of relationship conflict occurs without resolution a high amount of task conflict can also be expected. We may deduce a positive correlation between the two kinds of conflict as they influence each other and the feelings of the respective players in this FO drama.

The outcome of positive conflict resolution suggests that the relationship conflict will not be dependent on the task conflict variable and then the stakeholders of the FO should proceed to research the optimal moderation for their specific office and family.

Thomas and Kilmann (1974) analyzed collaboration management conflict resolution strategy with third party intervention. The ‘Family Office Governance’ survey has
shown that a minority of FOs adopt such conflict resolution, although it is shown to be the most productive tool of conflict resolution for the long term. Third party intervention can also be pursued by board directors, if they are not involved in the conflict themselves. As to the question: "What mechanisms are in place to resolve conflict", only three FOs have indicated that they consult or involve third party intervention.

Interestingly, one of the three FOs that consulted third-parties was also the FO that has endured through more than three generations, and in addition, this FO’s respondent expressed to be ‘most satisfied’ with the FO and the board of directors.

The development of the FO industry emerges from the challenge for wealthy families to manage their wealth efficiently and effectively and to transmit it through the coming generations. Under the auspices of the Wharton Global Family Office Alliance Report, world-wide research conducted in 2006-2007 surveyed FOs in the Americas, Europe and the rest of the world, including Australia, Hong Kong, Japan, Malaysia, Philippines and Singapore. It reported that in 33% of first generation FOs, the principals spend more than 80% of their time on investment activities versus only 9% of principals from the next generation (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2008).

Family dynamics play a significant role in FOs, as they directly impact on the office. Conflicts can hamper the ability to sustain and transmit the family’s wealth. In particular this holds true if there are family members who are not qualified to run the FO, but consider it part of their rightful heritage. Striving to avoid this specific situation, smart families have decided on certain conditions determining family members’ application to work in their FO: the candidates are required to have completed their academic studies, and then they should have successfully worked in an upper management position for an external company for at least a few years. After acquiring theoretical and practical experiences and know-how, and having lived company dynamics, and learned how to cope with intra-organizational conflicts, they are deemed ready for the responsibility of working for their FO.

But surprisingly, 61% of the respondents answered no to the following question: “Is there a mechanism in place to solve conflict amongst the stakeholders within the FO?”

The follow-up question, in the form of an open-ended question, asked for a description of their mechanism of conflict mediation. 19.23% provided a descriptive answer concerning intra-organizational relationship conflict resolution mechanisms. Of specific interest were some statements such as: “my way - or the high way” and the
laconic “only one principal”, which illustrate that conflict resolution mechanisms are not instated. However, the majority followed the classic path from analysis over dialogue and mediation to conflict resolution.

One respondent explained their FO’s possibility for a beneficiary to “cash out” in case of insurmountable dispute. It should be noted that 60% of respondents mentioned the frequently needed intervention of trusted third party, external consultants and professionals to mitigate conflict.

The concept of creating a positive intra-organizational relationship through governance attributes will be tested by observing the level of satisfaction with strategic direction and strategic monitoring. If the level of satisfaction is high, both in strategic direction and strategic monitoring, a positive intra-organization relationship is given. If the satisfaction with strategic direction and strategic monitoring is low, a high conflict potential is to be expected. If the strategic direction is highly satisfactory but satisfaction is low concerning strategic monitoring, an increasing amount of task conflict but less intrapersonal conflict should be seen.

The Wharton Global Family Office Alliance Report (2009) outlined that families that demand the highest standards of governance within the family itself, with clearly delineated roles and responsibilities and entitlements and with insistence on reporting and education, will create FOs promoting transparency and accountability, successfully transferring the family wealth through the following generations (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2009).

The ‘Family Office Governance’ survey has found that FOs that indicate conflict resolution by involving the principal feel ‘somewhat dissatisfied’ or ‘neutral’ with the performance of the FO and the performance of the board of directors.

Contrarily, the participants of the ‘Family Office Governance’ survey also showed that conflict resolution that did not involve the principal but focused on structured communication mechanisms resulted in higher levels of satisfaction with the board performance and the FO performance.

In particular, the board’s functions and role evolves over time from the founding generation of the FO through subsequent generations. When identifying the main functions-priorities listed by the Wharton Global Family Office Alliance 2009 and comparing these with the expertise represented on different boards of FOs, it is astonishing to learn that apart from the financial and legal expertise, specific elements that have frequently been declared to be priorities of FOs do not correspond with the expertise assembled on the board.
FO Scope of Services with Relation to Board Expertise

<table>
<thead>
<tr>
<th>Scope of Services</th>
<th>Important for European FOS (%)</th>
<th>Swiss board expertise (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset allocation</td>
<td>57%</td>
<td>67%</td>
</tr>
<tr>
<td>Managing selection &amp; monitoring</td>
<td>40%</td>
<td>53%</td>
</tr>
<tr>
<td>Information aggregating &amp; reporting</td>
<td>41%</td>
<td>42%</td>
</tr>
<tr>
<td>Education of family members</td>
<td>23%</td>
<td>67%</td>
</tr>
<tr>
<td>Estate Planning</td>
<td>31%</td>
<td>56%</td>
</tr>
<tr>
<td>Banking</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>Financial administration</td>
<td>40%</td>
<td>93%</td>
</tr>
<tr>
<td>Legal services</td>
<td>50%</td>
<td>65%</td>
</tr>
<tr>
<td>Relationship management</td>
<td>24%</td>
<td>37%</td>
</tr>
<tr>
<td>Risk management/ insurance</td>
<td>33%</td>
<td>37%</td>
</tr>
<tr>
<td>Concierge services</td>
<td>20%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Table 13: FO Scope of Services with Relation to Board Expertise

Source: Author

The Single Family Office Benchmark Report found a clear trend in high performing SFOs for in-house service in the following areas; asset allocation, manager selection and monitoring, and investing (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2009:8). Contrary to the assumption that more outsourcing will provide the best experts plus saving on remuneration costs and will result in higher performance, “the more an SFO controlled directly… the better the performance” (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2009:8).

In non-investment sectors like governance, communication, education and succession planning, higher quality expertise adjusted to expenses evidently also resulted in heightened performance levels.
“Twice as many high-performing SFOs (approximately 30%) reported that more than 67% of eligible family members took advantage of the educational programs offered” (Amit, Liechtenstein, Prats, Pendleton, & Millay, 2009:12). In-house seminars facilitated by professionals were considered optimal in the high-performance range.

This research shows that level of leadership, education and the composition of the FO correlate with respect to diversity, trust, vision and communication. The ‘Family Office Governance’ survey has illustrated that when all elements of strategic direction and strategic monitoring are implemented, personal and task conflict decreases and a higher overall satisfaction of the stakeholders in the FO can be achieved.

Analyzing the kind of programs that have been established for stakeholders of an FO, the ‘Family Office Governance’ survey showed the following results:

The question about the existence different programs proactively organized by the FO was only answered by 80% of the participants. When through follow-up calls the participants were specifically asked why they did not respond to that certain question, it was indicated that they are in effect designing such programs but had not yet implemented them. Others answered that through the survey they realized the importance of specific programs and are thinking of introducing them: this was rather gratifying. Nevertheless, of the 80% of participants who responded to the question, nearly half did not find programs of this sort relevant for their FO.

The FOs indicating that programs have been offered focused primarily on educational programs. 63% of FOs with educational programs also organize recreational programs proactively. Moreover, 58% of FOs with educational programs on their agenda offer communication programs as well. 37.50% of FO organized educational, recreational and communication programs for their stakeholders.

The introduction of individual programs should not be judged discretely, but viewed more as integrative and educational tools uniting all stakeholders and establishing consensus on the strategic direction for the FO. Furthermore, those programs can encourage the younger generation to be more interested in family affairs and their FO.

Daniell (2008:134) names this: “education preparation of the next generation”, as wealthy individual beneficiaries of FOs often are invited for internships by financial institutions and corporations to gain knowledge of financial business and wealth management.

Lowenhaupt and Trone (2012:68) stated: “if we are looking at multigenerational wealth, we must recognize the role of investment in education… we must try to
connect our children and grandchildren to their wealth by allowing its investment to come across as real and productive”. To create a holistic FO, it is important to devote enough attention to the younger stakeholders as well as to the more experienced generation, ideally bringing them closer.

Most FOs state successful wealth transmission to the following generations as their top priority. But without education and proper succession planning their objective will not be realized.

“Second generation education is best promoted through strategically designed programs engaging different generations together in philanthropic projects” (Lowenhaupt & Trone, 2012:101). This fosters in the young generation “a sense of legacy and teaches process and discipline” (Lowenhaupt & Trone, 2012:101).

The IWMS postulates: “For the Wealth Holder provisions shall be in existence for disposition of assets and management of affairs from and after death or in the event of incapacity. For the FO… provision shall be made for succession of governance and management” (Lowenhaupt & Trone, 2012:101).

The 59% of respondents with a clear succession plan in place for their FO declared with an overwhelming majority, (46% to 16%) to be ‘very satisfied with the board performance.

As to the overall satisfaction level with their FO performance again 62% of the respondents with a succession plan were ‘very satisfied’.

Only ‘somewhat satisfied’ with board performance were 11% and with FO performance 7% of the participants with a clear succession plan.

The statement ‘somewhat dissatisfied’ was given by 21% for board performance and 15% for satisfaction with FO performance by the 41% of respondents without a clear succession plan.
As most European FOs, and thus most Swiss FOs, come from an entrepreneurial background, the topic of succession with all its implications on the family as well as the business is familiar.

Philipp Mayer states: “Family successions have a large negative impact on firm performance: operating profitability on assets falls by at least four percentage points” (Mayer in MGMT 938- Family Business; Topic: Succession and Performance in Alexander, February 2011)

The Campden Conference (2009), which analyzed the post-crisis FO sphere, addressed the ‘changing equilibrium of power within families’. In the ‘principals only’ session, the distinction between the needs of the principals and those of FO executives was
recognized. The question of succession regulated through relevant estate planning and the education and preparation of the younger generation received heightened attention. Also, Villalonga and Amit (2006) observed ‘significant differences between family and non-family firms for all variables related to governance and control’.

In order to provide strategic direction and monitoring of the FO, specific expertise should be represented at board level. It is not necessary that all board members have the same knowledge in common; as a matter of fact, it is strongly advisable that board members complement each others' expertise. However, board know-how on the most fundamental objectives is advisable. As not every FO is the same, the expertise required will also not be the same. Nevertheless, 63.64% of FOs indicated that they feel that five or more areas of expertise are represented on their board. However, none of the FOs surveyed in “FO governance” described their board as possessing all major areas of expertise necessary for FO operation.

Since strategic monitoring is a challenging, task if there is a lack of expertise, especially at board level, only strategic reorientation of missing skills can remedy this situation.

\[ b) \textit{Strategic Monitoring} \]

Strategic monitoring accompanies strategic direction and its practical implementations. The important ingredient in this concept demands the diversity and empowerment of the board.

Strategic monitoring focuses therefore on questions that target diversification on the board, and building a culture of trust at board level expanding to an overall increase in the level of satisfaction in the FO. This section illustrates the practical outcome of those theories in the FO sector covered by the survey on FO governance.

Diversity is another FO criterion for the strategic monitoring function. “Real diversification of investments may also require diversification of jurisdictions… custody must follow the cash” (Lowenhaupt & Trone, 2012:54). Implementing diversification tools, and for those to be effective, not only “requires hard work, transparency, and complete understanding” from the wealth holder but a substantial due diligence infrastructure must be in place if one is to gain strategic benefit from diversifying managers. (Lowenhaupt & Trone, 2012:58).
Even if the wealth holder decides to outsource the planning of the necessary due diligence structure because of time constraints or insufficient know-how, there still remains the question of who and how to evaluate and control those structures and the external consultants.

Despite the enormous amount of capital held, only a small number of stakeholders have voting rights. The longer the FO is in operation the more family members become stakeholders as the family grows over multiple generations. However, not every stakeholder is qualified or even wishes to have voting power. “Family Offices can take on a life of their own, and family members can become irrelevant. It is challenging for any family to keep this from happening” (Lowenhaupt & Trone, 2012:92).

Furthermore, the decision-making process would become increasingly difficult if all stakeholders of the FO were granted voting power. It would seem just to presume the automatic right of voting power for every stakeholder, especially for beneficiaries. In reality, however, this would impair the FOs' capability for deciding and monitoring strategy in a timely manner. Also, family cohesion and harmony might be endangered and impact negatively on FO operations. As examples from the family business sector have shown, a situation of all stakeholders holding voting power can lead to dissolution and even bankruptcy in case of discord. If the enterprise and the family do not have the tools for conflict resolution based on good governance, it might become impossible to reach consensus. A lack of conflict resolution mechanisms may lead to loss of trust and intra-family discord may become insurmountable ultimately dividing the FO. In some cases, such as the Lladro family from Spain, this led to a split in the family and the creation of a separate, second FO.
The timeline illustrates a correlation between the percentages of stakeholders with voting power and the number of stakeholders the FO serves over 140 years. The ‘Family Office Governance’ survey showed that FOs founded before 1980 and still in operation do not accord voting rights to all their stakeholders. As for FOs established after 1980, a majority give all of their stakeholders voting rights. It will be interesting to see in the future whether these FOs are still in existence. It may be that an FO is more likely to remain in operation when voting rights are granted to selected stakeholders and not to all stakeholders the FO serves. Also one has to keep in mind that the longer the FO is operation, the bigger the family grows. So it would become inopportune to grant voting rights to too many stakeholders, thus encumbering any decision making process.

‘Governance structure’ builds “the relationship between wealth holders and their wealth” and should be designed to further family goals and objectives” (Lowenhaupt & Trone, 2012:75). Unfortunately, not all FOs that have defined strategic goals are
also very satisfied with the FO performance and the board of directors’ performance. An important aspect of satisfaction of the FO is building a culture of trust.

‘New Corporate Governance’ demonstrates that boards of directors that have significant influence in determining their own compensation therefore portray a value of fairness in their compensation and are better incentives to add strategic value, and hence are more productive than boards which do not have significant influence in determining their compensation (Hilb 2008:138). Extending this postulate to FOs, it will be tested if boards of directors of FOs that are involved in the decision-making of their compensation also represent a higher involvement in the strategic development, strategic direction and strategic monitoring of the FO.

When establishing strategic development, strategic direction and strategic monitoring it is extremely important to ensure the board of directors has an “in common” culture. This is significant, as the board of directors should be composed of people with a broad range of varied skills. If a shared office culture is not given, the likelihood of the board of directors working together efficiently is extremely low. Extending this to the FO context, the FO board obviously needs to assemble the requisite areas of expertise to direct and monitor the diverse range of activities of the FO. However, they still need to be able to work together harmoniously and successfully.

Moreover, an “in-common” culture is also important when resolving conflict in the intra-organizational relationship amongst the stakeholders. If any conflict is perceived to be resolved constructively, the power of the board of directors increases and the overall value of the FO likewise.

3.4.3 Keep it Integrated

The integrated dimension in the specific empirical part treats the empirical data and trends in the targeted selection and remuneration of board members aiming to create an integrative FO board - facilitating consensus amongst the FO stakeholders. An integrated FO also demands: “…looking at multigenerational wealth [to] recognize the role of investment in education… we must try to connect our children and grandchildren to their wealth by allowing its investment to come across as real and productive” (Lowenhaupt & Trone, 2012:68).
A sound integration through targeted selection, remuneration and development especially of the FO board ensures that the FO first and always guards the family’s interests.

\textit{a) Targeted Selection}

Selection procedures, especially when dealing with succession and transition periods, may evoke tensions in the FOs. The challenge to establish a harmonious, well-structured environment for all stakeholders clearly demands the definition of selection criteria.

The selection of external professionals to join the FO, as well as the overall succession planning, are topics that many FOs have already had to address in their family businesses.

FOs, like small to medium family businesses, only need a small board comprised of three to five directors, who consequently are required to possess diverse expertise and attributes.

Whereas on a larger board different tasks and roles are attributed to a greater number of directors, an FO board’s members should be capable of covering different areas of necessary know-how and also complement each other’s skills, and even personality attributes. An FO board cannot carry any ‘dead weights’ and therefore FO governance is insistent on the targeted selection of board members.

The majority of respondents (88%) to the questionnaire on FO governance had a board of directors for their office, only 12% had no board. But of the 88% of respondents with an FO board exactly half stated to dispose of every area of expertise on their board, whereas the other 50% did not judge to dispose of the necessary board expertise.

Table 14 illustrates the answers to the question ‘Do you feel that every area of expertise that the Board needs is represented on the Board?’
Areas of necessary board expertise

<table>
<thead>
<tr>
<th>Scope of Services</th>
<th>Every area of expertise is represented on the board</th>
<th>Not every area of expertise is represented on the board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset allocation</td>
<td>100%</td>
<td>86%</td>
</tr>
<tr>
<td>Managing selection &amp; monitoring</td>
<td>65%</td>
<td>67%</td>
</tr>
<tr>
<td>Information aggregating &amp; reporting</td>
<td>78%</td>
<td>57%</td>
</tr>
<tr>
<td>Education of family members</td>
<td>70%</td>
<td>62%</td>
</tr>
<tr>
<td>Estate Planning</td>
<td>61%</td>
<td>43%</td>
</tr>
<tr>
<td>Banking</td>
<td>43%</td>
<td>43%</td>
</tr>
<tr>
<td>Financial administration</td>
<td>35%</td>
<td>19%</td>
</tr>
<tr>
<td>Legal services</td>
<td>61%</td>
<td>48%</td>
</tr>
<tr>
<td>Relationship management</td>
<td>52%</td>
<td>57%</td>
</tr>
<tr>
<td>Risk management/insurance</td>
<td>43%</td>
<td>29%</td>
</tr>
<tr>
<td>Concierge services</td>
<td>30%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Table 14: ‘Areas of necessary board expertise’ proves again an alarming discrepancy between FO’s stated objectives and the assembled necessary areas of expertise on their boards.

Even respondents who felt they disposed of all necessary expertise on their board could only answer 100% in the affirmative for asset allocation. The second highest representation on the board when every area of expertise was supposed to be represented was information aggregation and reporting with 78%. Education of family members was the third most represented area of expertise. Concierge services, financial administration, risk management and insurance as well as banking...
represented less than 50% of expertise available on the board when respondents stated that all areas of expertise are represented.

Interestingly, those respondents who did not consider having all necessary areas of expertise on their board surpassed the others by 5%, namely 57% for relationship management against 52% and managing selection and monitoring by 2%. But for all other areas of expertise they fell behind by approximately twenty percent compared to respondents who stated that their board disposed of all necessary expertise.

Surprisingly enough, those respondents with all necessary areas of expertise on their board as well as the other group amounted to 43% with expertise in banking, but 47% of FOs with boards announced to be ‘very satisfied’ contra 17% without having all areas of expertise at board level.

Concise, objective- as far as humanly possible- and timely information through structured communication channels is a crucial ingredient for every operation. Also the expertise of risk analysis, which would have eased a quicker rebalancing to more defensive asset classes during the present liquidity crisis, should receive more attention in the targeted selection process.

Information reporting shortens all communication in the FO impact not only on the office’s operations, but also on the intra-organizational relationship. Furthermore, if the board intends to effectively direct and monitor their FO, the directors themselves need to ascertain that the most decisive areas of expertise will be represented by carefully and strategically selecting members of the board within due process.

**b) Evaluation of the FO**

“The vocabulary, the evaluation, and the implementation of private wealth management programs are strategically different from those of institutions” (Lowenhaupt & Trone, 2012:44). As every family’s culture and vision is unique, it follows that every FOs goals, investment allocations and evaluation criteria differ.

Since an FO is a family centered enterprise with no obligation towards outside shareholders, the goals of an FO are not always primarily return oriented. Lowenhaupt and Trone (2012:45) summarize this specific FO attribute: “appropriateness and dollar return may be completely different”.
Contrary to other enterprises’ performance appraisals, an FO evaluates performance not only by returns over a certain time frame, but also by ‘appropriateness’. The FO stakeholders of an office, guided by a specific family vision and mission, will consider not only an investment’s financial but also ethical or cultural identification with their own convictions.

Naturally, these considerations cannot be mathematically evaluated for risk analysis and risk control. Therefore, every FO needs to evaluate each investment strategy on purpose, consensus and ultimately on the expected returns balanced with their risk tolerance level.

“… there can be no ‘standard’ evaluation of appropriateness with respect to volatility” (Lowenhaupt & Trone, 2012:47). Despite so-called ‘Monte Carlo’ programs developed by analytics and technology, “the assumption that there can be fail-safe, absolute return strategies will continue to prove erroneous and many would consider lack of transparency risky, but that risk is not measured” (Lowenhaupt & Trone, 2012:47).

This process involves the individual vision and purpose for a specific wealth holder and covers strategies on investments. “So if wealth is multi-generational and about functionality, transparency becomes important” (Lowenhaupt & Trone, 2012:49).

“Strategic design of a portfolio starts long before asset allocation. And it starts with understanding goals” (Lowenhaupt & Trone, 2012:50). As in the FO industry the goals of the office are specific to the individual family the FO serves, these goals will differ due to multiple backgrounds and also to different sources of wealth.

These differences also determine the level of risk tolerance which can be explained by the previous business dealings of families. The way a family acquired its wealth is conditional to this family’s views on risk and to their need for transparency and reassurance. Therefore, every FO board has to take account of the family’s requirements and design their strategy accordingly. “As a strategic matter, transparency… should be seen as an element of process” (Lowenhaupt & Trone, 2012:48).

64% of respondents to the ‘Family Office Governance’ survey indicated to have a well-defined list of goals for each year. 76% of respondents affirmed that their boards receive feedback from the principal at least once a year. For those respondents who answered those two questions in the negative, two problems become evident: they do not have any concrete parameters for monitoring, since they did not predetermine their strategic goals. This evidence proves the lack of a reflected risk policy at the outset,
which later will result in incomplete, if not inadequate risk analysis and risk management. Also a board that does not receive feedback from the principal will not be able to fulfill its primary function, namely to strategically direct and monitor the FO operations according to the vision, the risk tolerance and the feeling of appropriateness of the principal.

c) Compensation

The topic of compensation has been in the spotlight in the past decade. The global financial crisis demands that entities need to face the question of remuneration more frequently. It is clear that boards of directors must provide leadership and direction for the FO to function on a satisfactory level for all stakeholders involved.

This section will demonstrate why the board of directors should have some influence on their own compensation.

It is clear that each individual board member should demonstrate, apart from professional expertise, also “integrated success” intelligence, which defines the combination of relevant competence to direct and control the entity. On the board team level this should translate the evolution from a “group of stars” to a “star team” (Hilb, 2008:141).
The ‘Family Office Governance’ survey illustrates that 49% of board members have ‘some influence’ on their own compensation. Still only the minority, 14% of board members, have ‘significant influence’ on their own compensation. However, as only 35 FOs answered the following question: ‘How much influence do board members have on their own compensation?’ this does not represent the entire target group but only a fraction of the sample. Out of those 35 FO respondents, 37% of board members had no influence on their compensation.
When comparing board satisfaction and FO satisfaction as to the influence level that board members have over their own compensation, no correlation can be found. None of the FO respondents indicated that they are very dissatisfied with the directors of the board. Those that indicated that they felt ‘neutral’ about the board performance had no influence on their own compensation. As to board performance and level of influence on board compensation, no correlation was found. Despite the varying level of influence that board members have over their compensation, the level of FO satisfaction and board satisfaction was equally proportioned and not affected by the influence on board compensation.

Figure 28: Board members’ level of influence on their own compensation with regard to board satisfaction

Source: Author
When comparing the board members’ level of influence on their own compensation linked to board satisfaction and then to FO satisfaction, three patterns are visible. Primarily, if board members have significant influence on their compensation they do not feel neutral about the FO performance. Moreover, the higher the satisfaction level with the FO performance was stated, the lower the rate of ‘no influence’ over board compensation appeared. Finally, there is no correlation found between ‘some influence’ on board compensation and the FO satisfaction level.
The ‘Family Reward’ study by Campden FO, in association with the executive search firm Sulger Buel & Company, provides a detailed report about FO executive compensations by surveying 25 FOs located in the United Kingdom and Switzerland.
Sulger Buel, managing director at Sulger Buel & Company stated: “Compensation, which is still a bit of a taboo for confidentiality reasons, is now more discussed by families and their family offices – and outside” (Sulger Buel & Co. / Campden FO, 2012:14).

Furthermore, the survey demonstrates a considerable variance in compensation for executive positions dependent on the geographical location of the FOs (Sulger Buel & Co. / Campden FO, 2012:14).

The ‘Family Reward’ survey found minimal differences in FO compensation for the different regions in Switzerland. In the United Kingdom remuneration in London is considerably higher than in the rest of the country. The only big difference in compensation in Switzerland is observed between an FO built on Swiss wealth or on international money. Executives working for FOs that manage international wealth are found across all positions to be more highly compensated. These chief executives are paid between CHF 400.000 and CHF 650.000 annually. But chief executives of Swiss based wealth FOs earn considerably less, CHF 200.000 and CHF 500.000 annually with bonuses typically 20% to 40% of base (Sulger Buel & Co. / Campden FO, 2012:16).

When comparing the starting base salary of executives in Switzerland to executives in the United Kingdom, starting base salaries in Switzerland are considerably higher. Moreover, eventual bonuses can add up to 50% of the base salary as well as include ‘total packages’ that can reach more than CHF 1 million annually.

It has also been observed that Chief Financial Officers (CFOs) and Chief Operational Officers (COOs) are compensated better when FOs manage international wealth. Their base salaries start at CHF 300.000 and can go as high as CHF 600.000 while bonuses can amount to 40% of base salary. Starting salaries of CFOs and COOs in FOs that manage only Swiss-based wealth range from CHF 200.000 to CHF 500.000.

Chief Investment Officers (CIOs) earn between CHF 250.000 to CHF 450.000, COO and CFO base pay is between CHF 200.000 and CHF 400.000. Additional discretionary bonuses for all officers are considered an extra incentive.
Executive FO Base Compensation in Switzerland

<table>
<thead>
<tr>
<th>Position</th>
<th>Swiss Based Wealth (CHF)</th>
<th>International Based Wealth (CHF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>200.000 - 500.000</td>
<td>400.000 - 650.000</td>
</tr>
<tr>
<td>CFO/COO</td>
<td>200.000 - 400.000</td>
<td>300.000 - 600.000</td>
</tr>
<tr>
<td>CIO</td>
<td>250.000 - 400.000</td>
<td>400.000 - 500.000</td>
</tr>
</tbody>
</table>

Table 15: Executive FO Base Compensation in Switzerland

Source: (Sulger Buel & Co. / CampdenFO, 2012:16)

The most important findings of the ‘Family Reward’ study are listed below:

New-money family offices are likely to pay more than old-money offices – this was found to be the case in both Switzerland and the UK.

Job satisfaction is likely to be a big decision factor for working for a family office – most senior managers cite this as their main reason.

Family offices, where the fortune was made in the financial services sector, pay more for senior staff than family offices with non-financial services fortunes behind them.

Since the financial crisis, performance and bonus are computed more often over a three-to-five-year period, with claw back options more common.

In general, bonuses are much more locked up these days, reflecting larger trends in the financial services sector.

Senior staff are likely to invest along with the family so investment interests are likely to be in line with each other – this is not always the case at private banks.

The CIO job function does not always exist; indeed evidence suggests this is being increasingly outsourced in Europe, along with other investment functions. Also, sometimes a CEO will cover the CIO position.

Due to their importance in monitoring risk, CFOs/COOs have assumed a much more important role at all family offices since the financial crisis, which has had a corresponding affect on their salaries.

Source: (Sulger Buel & Co. / CampdenFO, 2012:18)
The figures published in the ‘Family Reward’ report offer new information on the range of executive compensation usual for FOs operating in Switzerland. The European Family Office Survey (2011) states that even with growing demand for online consolidated reporting and evaluations, “no FO spends more than €200,000” annually in-house on personnel and software (UBS/Campden Research, 2011:74). Unfortunately, there is no information available concerning compensation of members of the board. Still it may be logically deduced that an FO interested in assembling a board disposing of the necessary professional and social skills will be prepared to match the market benchmarks established by public or private companies.

To conclude, the level of board influence on the board’s own compensation does not influence the level of satisfaction with the board performance. The level of the FO satisfaction is slightly affected when ‘no influence’ over board compensation is present. If ‘some influence’ or ‘significant influence’ on board compensation is present no apparent correlation is recorded.

In this part, the advantage of establishing an integrative approach in selection, evaluation, remuneration and development of the board team has been observed. With an integrative approach, conflicts over succession planning, investment allocation or choice of services can be easily managed.

‘Keep it integrated’ is the third dimension of the Reversed KISS Principle. This dimension of ‘New Corporate Governance’ includes targeted selection, appraisal, compensation and development of the supervisory and managing board members. In the interest of good governance, it is suggested that compensation of board members as well as management should be tied to the underlying performance of the entity, over a certain time frame.

### 3.4.4 Keep it Controlled

This section retraces the theoretical guidelines leading to practical successful monitoring of FOs. ‘Keep it controlled’ addresses the controlling and monitoring functions needed to assess the operative effectiveness of the FO. The controlling mechanisms depend partially on the identification of the designed strategy and its integration into the entire monitoring of the FO, including communication.
Boards of directors should dispose of a complementary pool of expertise for controlling an entity. Discussing the above mentioned areas of the controlling dimension clearly emphasizes the skill set which is necessary to complete the function. It is important to understand that only when a board member is truly capable of controlling these specific tasks they should accept the board seat.

In Switzerland, legislation has entrusted the two major functions of directing and monitoring to the board of directors. This underlines the crucial importance of the board to the performance of the entity. As mentioned before, FOs, depending on their legal entity, are not always obligated to install a board, but deducing the board’s role, as a guarantor of good governance, FOs are well advised to have one nevertheless.

Control is one of the major motivations for setting up an FO in the first place. Therefore, control over strategy and control of risk management are basic preconditions for an FO’s success. The mistake many FOs make, and which a board could assist to avoid, is identifying and dealing with appearing risks ad hoc, or even retrospectively instead of devising a coherent risk policy and formal risk management procedures.

Control and monitoring which deal with risk analysis and risk management can only be effectively exercised if the right infrastructure of communication is in place. Also internal as well as external auditing depends on the concise, extensive and timely exchange of relevant information. If one compares the operations of an FO to a journey, with the officer at the wheel and the board of directors as the navigator, the formal definitions of strategy and risk policy draw the road map. Communication structures are the roads which the information and communication travel along. Internal auditing as well as periodical reviews of risk analysis and evaluation are the milestones permitting intermittent orientation or even choosing new directions.

The goal of this journey would be a positive intra-organizational relationship among the stakeholders with a hopefully positive, performance evaluation on financial as well as other previously defined objectives.
a) Auditing

The survey ‘Family Office Governance’ underlines the importance of diligent auditing for achieving satisfaction with the FO. A significantly higher percentage, two-thirds of respondents, declared they were “somewhat dissatisfied” with the FO and the board of directors when annual internal audits were not conducted. One-third of respondents indicated to conduct annual internal audits but still be “somewhat dissatisfied” with the FO and the board of directors.

Moreover, the ‘Family Office Governance’ survey found that 65,22% FO stakeholders where internal audit mechanisms were in place to be ‘very satisfied’ with the FO performance. 68,75% of respondents with internal audits were also ‘very satisfied’ with the performance of the board of directors. Only 34.76% indicating to be ‘very satisfied’ with the performance of the FO did not conduct annual internal audits. 31,25% of respondents declared to be ‘very satisfied’ with the board of directors even though no annual internal audit mechanisms were implemented.

The ‘Family Office Governance’ survey illustrates that FOs with set goals for each year and internal or external audit mechanisms in place enabling them to monitor their performance will be more effective, as benchmarked by the satisfaction level of their stakeholders. As most principals from the first generation are also directly involved in the investment activity of the FO many do not see the need for auditing and monitoring their strategies and their outcomes. Previous reports have identified that successive principals from the next generation are not as highly involved in investment activities and the ‘Family Office Governance’ survey has found these FOs more likely to adopt in internal or external auditing.

Figure 32: Internal Audit in Relation to Board Satisfaction and FO Satisfaction indicates a direct upwards shifting correlation between board satisfaction and internal audit and FO satisfaction with internal audit mechanisms in place. Moreover, the graph also shows that there is a direct negative correlation between board satisfaction without internal audits and FO satisfaction without internal audit mechanisms.
Only a careful structure of internal and external audits provides an unbiased, independent evaluation of the FO’s performance. Nevertheless, not many FOs hold external audits. This is not only due to increasing costs, but also to the reluctance to divulge the FO’s business operations and ‘numbers’ to outside parties.

It is obvious that effective risk management needs to be founded on the basis of internal auditing and the supervisory function of absolutely independent external auditing which has no link, not any point, to the operations or board of the FO.

As to the question of external audits, 52.17% expressed to be ‘very satisfied’ with the performance of the FO when external audit mechanism were present. A higher percentage, 56.25% indicated to be ‘very satisfied’ with the performance of the board of directors when external audits were held. Consequently, a little less than half of the respondents indicated that they are also ‘very satisfied’ with the performance of the FO and the performance of the board when external audits were not implemented.
Only in categories of respondents stating to be ‘somewhat satisfied’ a large discrepancy is visible. 88.89% of respondents indicated not to conduct external audits but still to be ‘somewhat satisfied’ with the FO, as well as 75% of participants who did not conduct an annual external audit but expressed to be ‘somewhat satisfied’ with the board of directors.

Of course, positive returns would evoke satisfaction with the FO operations, but without internal and external auditing, therefore with little control, there is no guarantee for achieving an authentic, proven status report. Furthermore, the absence of benchmarks inside given time parameters does not allow for the chance to pick up on warning signs and redirect allocations, strategies, or even personnel decisions.

“These days where it is difficult to forecast and monitor the performance of your investments,, managing the short term is key as well as the small numbers” (Campden, 2009:Presentation David Lladro).

![External Audit in relation to board satisfaction and FO satisfaction](image)

Figure 32: External Audit in relation to board satisfaction and FO satisfaction

Source: Author
It seems logical that 100% of respondents who did not conduct external audits were ‘somewhat dissatisfied’ with their FOs. But it is surprising to see 88, 89% of respondents without external audits declaring themselves to be ‘somewhat satisfied’. One wonders on which parameters their satisfaction level is based. Of course, positive returns would evoke satisfaction with the FO operations, but without internal and external auditing, therefore without any control, there is no guarantee for obtaining an exact, proven status report.

**b) Risk management**

The main aspect of the controlling dimension relies on the risk management function of the board. The definition of an integrated, future-oriented, holistic risk management concept by the board as well as the officer, leaves daily risk to the latter, but keeps the responsibilities for control with the board (Hilb, 2008:165-66).

Confidentiality and the preservation and transmission of wealth remain the most important objectives of FOs. But in view of the stated goals and the world-wide recession following an avalanche of falling markets, bankruptcies and frauds, there remains a shocking contradiction: 33% of SFOs and 29% of MFOs have no formal written risk management policies and guidelines, as found in the UBS/Campden Research (2011:4) on 50 European FOs with a wealth level from €100 million to over €1,5 billion.

Also, the survey ‘Family Office Governance’ found that 70% of respondents conduct a comprehensive risk analysis once a year. Out of those 70% that did, nearly 80% were ‘somewhat satisfied’ or ‘very satisfied’ with the performance of the board. Moreover, above 80% of respondents indicated that they are ‘somewhat satisfied’ or ‘very satisfied’ with the FO performance when the FO also conducts a comprehensive risk analysis at least once a year.

European Family Office Survey 2011 reports that less than 20% of FOs changed their risk management policies after the crisis of 2008-2009. Nevertheless, the survey discovered a heightened focus on risk management. 35% of the SFOs surveyed in 2011 reported on having made changes in adapting their risk management mechanisms in the last 12 months versus only 16% SFOs in 2010. Those who did not implement any changes in the last 12 months still amounted to 65% of SFOs in 2011 compared to the stunning number of 84% in the year 2010 (UBS/Campden Research, 2011:38).
“Too big to fail” no longer holds true since Lehmann Brothers folded, which should be a wake-up call. Despite the recent lip service to due diligence and good governance, only a few companies have drawn up practical consequences.

Risk management is key to macro level investment, but according to the Campden (2011:34) European Family Survey, 33% of SFOs have no formal written risk management policies and guidelines. In 2010, after the financial crisis of the two previous years, only 20% of the surveyed FO’s changed their risk management procedures. In the year 2011, this percentage increased to 35%.

Holistic risk management means much more than loss minimization. It should aim at a “positive opportunity-risk relationship” (Hilb, 2008: 170). A positive opportunity-risk relationship should encompass the FO’s strategy, communication mechanisms and reporting tools. Monitoring and evaluation of the FO should not only focus on financial fluctuations but also on human resources such as managers, hired experts and the directors of the board.

It is important to “first, identify family and shareholders’ values, family culture applied to business risk profile… find the right balance between ownership and management” (Campden Conference, 2009: Presentation David Lladro). In order to assess the appropriate risk management, shareholders’ value and family culture needs to be identified.

Considering that the major long-term risk threatening FOs is wealth atrophy and, after a few generations, consequently the FO’s dissolution, it is hard to understand the insufficient implementation of risk management that does not extend to conscientious internal and external auditing.

The UBS/Campden Research (2011:73) further notes between 2007 and 2010 a significant increase in investment, audit, owners, and management committees for well over two-thirds of SFOs surveyed in 2010. Nevertheless, in 2011 the study reported a major focus on the investment committee. 78% of SFOs declared that their investment committee was active. Moreover, the research illustrated a majority of SFO eliminating the audit committee. In 2010, 60% of SFOs reported to have an audit committee; in 2011, only 31% of SFOs. The number of audit committees shrinking by half in only one year can be explained by FOs either entrusting the auditing to external experts, or by FOs trusting to a supposed calm after the storm, which can be rather shortsighted.

Naturally, FOs strive to cut costs in a climate of growing illiquidity and uncertain economic outlook. This explains renouncing on committees or experts judged
dispensable. The ‘FO Governance’ survey showed that the absolute majority, 93% disposed of financial expertise on their board, 68% had risk analysis expertise and 52% of respondents could count on the expertise of managing selection and monitoring, while only 43% had board expertise in areas such as information aggregation and reporting.

Neglecting risk management, auditing, and education, especially within a transition process to another generation, and eliminating essential controlling mechanisms may prove to be extremely expensive for the FO and may result in a major loss of control over the FO.

Comparing data collected in 2010 and 2011, an increase in importance of objectives was measured using a scale from 1 to 5 (very important to not important). Objectives such as cost control and economies of scale in operating/investing costs showed an increased importance from 2010 to 2011 of 2.72 points to 2.25 points. Consolidation reporting and risk analysis further increased in importance from 2.25 basis points in 2010 to 1.84 basis points in 2011 (UBS/Campden Survey, 2011:17). This last result shows the reinforced attention to risk analysis and FOs’ realization that consolidation reporting is essential in the controlling dimension.
Conducting a comprehensive risk analysis in regards to level of satisfaction with board and FO performance

<table>
<thead>
<tr>
<th>Risk Analysis in regards to satisfaction level</th>
<th>Does the Family Office conduct a comprehensive risk analysis at least once a year?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>How satisfied are you with the performance of the Board?</td>
<td></td>
</tr>
<tr>
<td>Very Dissatisfied</td>
<td>0</td>
</tr>
<tr>
<td>Somewhat Dissatisfied</td>
<td>15,15%</td>
</tr>
<tr>
<td>Neutral</td>
<td>6,06%</td>
</tr>
<tr>
<td>Somewhat Satisfied</td>
<td>39,39%</td>
</tr>
<tr>
<td>Very Satisfied</td>
<td>39,39%</td>
</tr>
<tr>
<td>How satisfied are you with the performance of the Family Office?</td>
<td></td>
</tr>
<tr>
<td>Very Dissatisfied</td>
<td>0</td>
</tr>
<tr>
<td>Somewhat Dissatisfied</td>
<td>3,03%</td>
</tr>
<tr>
<td>Neutral</td>
<td>12,12%</td>
</tr>
<tr>
<td>Somewhat Satisfied</td>
<td>24,24%</td>
</tr>
<tr>
<td>Very Satisfied</td>
<td>60,61%</td>
</tr>
</tbody>
</table>

Table 16: Conducting a comprehensive risk analysis in regards to level of satisfaction with board and the FO performance

Source: Author

In order to minimize and counter risks, monitoring and risk management should be integrated in the governance structure. In an FO, the level of risk tolerance will also depend on financial capacity. However, not all risks are financial, and these need to be considered as well. A fundamental responsibility of the board of directors is to protect the assets, thereby ensuring their responsibilities to all shareholders are met. The
board’s ability to provide this level of accountability depends on having independent non-family members on the board (Jaffe 2011:14).

One way to minimize risk is through diversification, including diversification of asset allocation into different investment vehicles and classes. However, for diversification of managers to be effective, this “requires hard work, transparency, and complete understanding “from the wealth holder. But a “substantial due diligence infrastructure must be in place if one is to gain strategic benefit from diversifying managers” (Lowenhaupt, 2009:58).

Even if the wealth holder decides to outsource the planning of the necessary due diligence structure because of time constraints or insufficient know-how, there still remains the question of evaluating and monitoring those external experts, especially if the alignment of interests has not been ensured. Therefore, conclude Lowenhaupt and Trone (2012:58): “a well-designed family office may be a solution.”

c) Communication

An “essential leadership behavior: communication defined as articulate and persuasive in the written and spoken word, effective in both formal and informal communication…” (Lowenhaupt & Trone, 2012:175).

Communication defines not only the exchange of information; it flavors professional and human intra-organizational relationships. When the respondents of the survey ‘New Family Office Governance’ were asked: “How satisfied are you with the communication mechanism in the FO?” 43% stated to be ‘very satisfied’, 29% stated to be ‘somewhat satisfied’ and 14% indicated to be ‘somewhat dissatisfied’ while 4% were ‘very dissatisfied’. 10% felt ‘neutral’ about the communication mechanism in the FO.

When correlating satisfaction with the FO’s communication mechanism and the satisfaction level with the FO, the results obtained show a direct correlation between the level of satisfaction of the FO performance and the satisfaction of communication mechanisms in the FO. None of the FOs indicated to be ‘very dissatisfied’ or ‘somewhat dissatisfied’ with the FO performance and ‘very satisfied’ or ‘somewhat satisfied’ with the communication mechanisms in the FO. However, 73.91% indicated to be ‘very satisfied’ with the FO performance and the communication mechanisms of
the FO. 52, 94% responded to be ‘somewhat satisfied’ with the FO performance and the communication mechanism of the FO. 50% of respondents felt neutral about the FO performance and the communication mechanisms in the FO. And 66, 67% indicated to be ‘somewhat dissatisfied’ with the FO performance and the communication mechanism in the FO. This suggests that the communication mechanism directly affects the level of satisfaction of the FO performance.

The Wharton Global Family Alliance report 2007 found a clear difference between European and American SFOs in the extent and frequency of information and communication between the stakeholders.

Whereas European SFOs exchanged monthly information (39%) and 46% insisted on it being ‘very detailed’, for Americans SFOs they counted only 16% as having a monthly information exchange which 29% specified as ‘very detailed’.

Comparing these patterns with later generations of European SFOs, 37% demand monthly, 19% biannually, and only 9% “very detailed” information.

These statistics can be explained as typical for later generations, when compared to the first generation principals as well as beneficiaries tend to be less actively involved in their FO. The UBS/Campden Research European FO survey saw in 2011 an increased information exchange ‘monthly” for family members whereas the year before “quarterly” was most usual. 33% of participants spent more than 80% of their time on the FO, primarily on investment activities. It may be deduced that, in light of their proactive involvement, they demand more frequent and more detailed information and in turn foster more communication.

The Campden Research “Beyond Uncertainty” (2011:33) found that the 30% Swiss FOs out of their European FO Survey rated “consolidated reporting and risk analysis” higher in importance, 1.84 versus 2.25 for the year before on the scale of 1 to 5, with 1 being the most important.

“A candid exchange of views” should be facilitated by the board, whose “specific responsibilities… include… monitoring the flow of information to the board” (Bowen, 2008:58). “Effective channels of communication… are needed… one critical requirement is that feedback be accurate” (Bowen, 2008:160)
## Correlation between Board feedback and satisfaction with communication

<table>
<thead>
<tr>
<th>Board Feedback/ Level of satisfaction</th>
<th>Board Feedback by owner annually</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>How satisfied are you with the</td>
<td>5,41%</td>
</tr>
<tr>
<td>communication mechanism</td>
<td>8,11%</td>
</tr>
<tr>
<td>Very Dissatisfied</td>
<td>8,11%</td>
</tr>
<tr>
<td>Somewhat Dissatisfied</td>
<td>24,32%</td>
</tr>
<tr>
<td>Neutral</td>
<td>54,05%</td>
</tr>
<tr>
<td>Very Satisfied</td>
<td></td>
</tr>
</tbody>
</table>

Table 17: Correlation between Board feedback and satisfaction with communication

Source: Author
3.5 Summary

The empirical results from the controlling dimension have reinforced the significance of internal as well as external auditing for the FO.

Auditing functions as a requisite control mechanism, evaluating the perimeter of a defined risk policy and risk tolerance are the veritable start of risk management.

The responses to the FO governance survey prove this importance by showing a higher satisfaction level with the FO when an annual comprehensive risk analysis is conducted.

Also, the expertise of information aggregation and reporting, as well as frequent communication programs for FO stakeholders, correlated to the satisfaction level as benchmark, underlining the crucial importance of structured communication for the FO’s operations and intra-organizational relationship.

“Minimizing risk, rather than managing risk, seems to have become a board’s mantra,” warns Bowen (2008:184). Nevertheless, the FO’s risk management, including internal and external auditing, has to have its roots already planted in the strategic dimension in order to be effective, preventive instead of repairing, and informed through efficient communication structure.
4 Conclusion Section
4.1 Discussion and Implications

The concluding part of the dissertation ‘New Family Office Governance’ summarizes the research results in view of the previous theoretical analysis. Then, the practical implications of the concept of FO governance are presented. The third section proposes further research, which this dissertation shows to have significant relevancy for the family office industry.

4.1.1 Discussion of Research Findings

The discussion of research findings is not limited to the study of FO governance but discusses empirical observations in light of the theories advanced in the first part, which draw the framework for this concept of FO governance.

Table 17: Extension to ‘New Family Office Governance’ focuses on the differences between current FO governance practices and ‘New Family Office Governance’ based on the four dimensions of the Reversed KISS Principle.
### Extension to ‘NEW’ Family Office Governance

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Current FO Governance</th>
<th>New FO Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Situational Implementation</td>
<td>Each FO is structured differently</td>
<td>Implementation appropriate to all FOs</td>
</tr>
<tr>
<td>Strategic direction</td>
<td>No clear role for strategic direction among Stakeholders</td>
<td>Board of directors has central function of strategic direction</td>
</tr>
<tr>
<td>Integrated Board of directors</td>
<td>No clear role for board of directors</td>
<td>Identification of diverse roles and functions of directors of the board, integrated with other stakeholders</td>
</tr>
<tr>
<td>Holistic monitoring</td>
<td>Monitoring function divided amongst Stakeholders</td>
<td>Board of directors responsible for holistic monitoring process</td>
</tr>
</tbody>
</table>

Table 18: Extension to 'NEW' Family Office Governance

Source: Author based on (Hilb, 2008:11)

“There are regulatory frameworks, fiduciary or suitability requirements governing the management of investment…” but “Surprisingly, there are few such standards for the management of private wealth, particularly global private wealth” (Lowenhaupt & Trone, 2012:105).

The theory proposed in the first part of the dissertation which demands governance structures for all aspects of the family office throughout the four dimensions has been confirmed through the empirical findings of the survey and other field studies quoted.

Furthermore, ‘New Family Office Governance’ sees the board of directors’ role as crucial for the implementation, monitoring and controlling of the office’s governance.

This mandate for the board to strategically direct and monitor and holistically control the FO explains the high demand this concept places on the targeted selection, diversity of expertise, and the personal attributes and “people skills”, e.g. leadership, of the board’s members.

“Sound process removes family dynamics, allows delegation of responsibilities, and gives every family member both the comfort of knowing that affairs are being managed and the freedom to live his or her life to the fullest” (Lowenhaupt & Trone, 2012:111).
Some research findings, specifically answers to the questionnaire ‘New Family Office Governance’, may seem surprising and even appear illogical.

For instance, respondents who did not draw up annually a well-defined list of goals, others who did not conduct internal or external auditing, nevertheless stated to be satisfied with their FO. One wonders how their office could implement efficient risk management procedures and how they could evaluate their FO’s returns as well as the efficiency of their human resources: in other words, what exactly is driving their satisfaction?

In the theoretical and in the empirical part of the dissertation, the importance of a culture of trust has been stressed. A culture of trust allowing reliance on the FO also allows for positive, constructive dissent.

The goal is not the avoidance of conflicts, which is both naive and unrealistic, but the creation of an atmosphere of openness and confidence, minimizing personal conflicts and working through task conflicts by discussion and in a climate of trust.

When such an office culture is achieved, then self- and external evaluation, even of board members, will not be perceived as distrust but as a necessity in the system of ‘New Family Office Governance’.

Finally, academics as well as practitioners need to remember what Lowenhaupt and Trone (2012) term “appropriateness” and which distinguishes the Family Office from other entities.

4.1.2 Theoretical Implications and Practical Implications

The theoretical and practical implications of ‘New Family Office Governance’ on the Family Office are presented below throughout the four dimensions of the Reversed KISS Principle.
### Theoretical and Practical Implication of ‘New Family Office Governance’

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Theoretical Implications</th>
<th>Practical Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep it situational</td>
<td>External context impacts on internal context of the organization and its culture, But the situational dimension is adaptable to each FO’s situation</td>
<td>External context may differ, as well as the internal context, due to geographical identity. But governance in the situational dimension can be tailored to the individual FO needs through a glocal approach.</td>
</tr>
<tr>
<td>Keep it strategic</td>
<td>Strategic direction of the FO by a board team of targeted and diverse composition building a culture of trust inside formalized structures</td>
<td>Diverse board composition allows a broader array of expertise and proves an asset in the strategic direction of the FO by its board in a climate of trust. Strategic direction and monitoring functions are formally defined as is succession planning.</td>
</tr>
<tr>
<td>Keep it integrated</td>
<td>Targeted selection and compensation of directors as well as targeted feedback and development result in a holistically integrated board.</td>
<td>The strategically composed board will lead the FO through operational as well as intra-organizational challenges in an integrative communication culture of trust, also by offering mediation and conflict resolution. Compensation and incentives are performance linked and computed over a convened time horizon.</td>
</tr>
</tbody>
</table>
Effective communication structures are the prerequisite for the controlling function of the FO board, which also monitors all facets of risk management and evaluation of the financial, organizational as well as human resources of the FO.

The board monitors risk management, starting by defining the suitable risk policy and evaluating by risk analysis as well as internal and external auditing. Proper communication structures assure the relevant information exchange and assure efficient risk management.

Table 19: Theoretical and Practical Implication of ‘New Family Office Governance’

Source: Author

‘New Family Office Governance’, inspired by Hilb’s “New Corporate Governance”, proposes a holistic framework of governance through the dimensions of the Reversed KISS Principle, situational, strategic, integrated and controlling. ‘New Family Office Governance’ endeavors to propose practical guidelines to FO stakeholders, not theoretical best-practice recommendations. The governance framework is based on the board of directors strategically directing and monitoring, integratively, and so holistically, controlling the FO.

“The governance debate is too much about ticking boxes. What really count are skills and behaviors inside the board room” (Carter and Lorsch, 2004:220) in (Hilb, 2008:207).

This demand is answered by the system of FO governance which, once implemented, will result in an FO board empowered to fulfill its primary mandate: to strategically direct and holistically monitor the FO.

Effective communication structures that enable timely and concise information aggregation hence reporting will prove an asset not only for operational, but also for intra-organizational relationship problems or task conflicts.

Furthermore, a board team whose members are strategically selected and therefore complementary in their diversity of expertise and backgrounds and personality attributes will bring absolute added value to a globally operating FO.

Today especially, post-financial crisis, risk analysis, risk management and evaluation, including of management and board, is appreciated as more important than ever.
Therefore, periodical auditing, internal as well as external becomes the important benchmark for judging the FO’s operational efficiency.

Apart from finding the optimal board approach and process for the individual FO, the matter of compensation, terms and succession has to be predetermined. Richard Breeden, (Report on World Com., Corporate Monitoring, 2003) states: “a static board membership can be dangerous” (Bowen, 2008:170).

Bowen warns: “I have learned that process problems are generally harder to handle after the fact… once sound structures have been adapted …concern about governance can assume its rightful place in the background” (Bowen, 2008:183).

Then the FO and the FO board can “…focus on substance. Governance is a means to an end, not something to be admired in and of itself” (Bowen, 2008:183).

As mentioned before, in absence of hard data, the FOs surveyed via questionnaire ‘New Family Office Governance’ could only be evaluated on the satisfaction level they expressed with their FO and with their board and their performance.

Even so, it transpires that if the FO board disposes the relevant expertise of risk policy, presents well-defined annual list of goals, undertakes internal and external auditing and also offers conflict resolution mechanisms then, the expression of a higher satisfaction level with the FO is much more likely.

Finally, an FO is a unique organization and even if reminiscent of a family business the FO has its own characteristics and exigencies, foremost to grant the family confidentiality, the successful preservation and transmission of the family’s wealth and finally the “freedom of wealth”.

By adapting the elegant simplicity of Hilb’s ‘New Corporate Governance’ to New Family Office Governance’ the FO is provided with a systematic and encompassing governance structure which, when implemented and monitored by the board, will bring excellent results and satisfaction to all FO stakeholders. Bowen quotes from a speech by Nobel Prize-winner economist W. Arthur Lewis, January 15, 1967: “Excellence is achieved not only by intellect; it derives even more from character… Only the humble achieve excellence since only the humble can learn” (Bowen, 2008:209). Humility is another desirable personal attribute of the ideal director for the FO board, since only then he will learn concept of FO governance.
4.2 Further Research

The theoretical and empirical parts of this dissertation have drawn the framework for ‘New Family Office Governance’ and surveyed Swiss-based FOs as to their governance practices.

Findings from the survey as well as other studies have proved the crucial need for FO governance to be incorporated into daily operations, and intra-organizational relationships, strategically directed and holistically monitored by the board of directors.

Therefore future research on FO governance should primarily concentrate on the board and analyze the following topics preferably by comparing different FOs:

- Criteria for targeted selection of board members
- Competencies of the individual directors
- Complementary and diverse composition of the board
- Independency and influence on compensation
- Board approach and organization
- Board self- and external evaluation procedure
- Terms of board mandate and succession planning

As to the beneficiaries of the FO, further research could analyze:

- Minimum age of beneficiaries and qualifications for
- Attendance at board or management meetings
- Dividend payouts
- Position in the FO
- Independent own projects

Further research on FO governance could also choose different stakeholders of one FO and interview them separately, and evaluate their outlook as to the governance structures implemented- or not- in their FO. It would prove interesting as often people see and judge the same event or situation quite differently. As has been regretfully
stated before, the big obstacle to any research in the FO industry is the wall of confidentiality, which also impedes information on hard data, strategy and human resource management.

Nonetheless, it is proposed for further empirical research, to follow two samples of FOs for 12 months, after they have been surveyed by questionnaire.

The project intends to offer half of the participants help with the implementation of ‘New Family Office Governance’ in their FO, accompanying them and counseling them over the indicated year. The second sample would not be interfered with.

After 12 months, all the FOs would be surveyed again with the identical questionnaire of the previous year.

When comparing and evaluating the answers of the two sample groups from the first and second questionnaire, this research could empirically prove the added advantage of adopting the structures of FO governance.

Even though 12 months seems relatively short term, as the FO sector does think long term, this time frame should prove sufficient to allow the researcher as well as participants of the study to appreciate the potential of ‘New Family Office Governance’, as the results obviously justify the investment of this framework’s implementation.
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http://www.pictet.com/en/home/private_clients/family_office/contact.html


### Appendix 1: Swiss Family Offices Sample Group

<table>
<thead>
<tr>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1875 Finance Family Office</td>
</tr>
<tr>
<td>21i.net Services AG</td>
</tr>
<tr>
<td>Active-Advisors SA</td>
</tr>
<tr>
<td>Adveq Management AG</td>
</tr>
<tr>
<td>Albin Kistler Partner AG</td>
</tr>
<tr>
<td>Alden Capital Limited</td>
</tr>
<tr>
<td>Altamira Management AG</td>
</tr>
<tr>
<td>Alter Capital</td>
</tr>
<tr>
<td>Alter Ego Family Office</td>
</tr>
<tr>
<td>Amadeus Fiduciaire SA</td>
</tr>
<tr>
<td>Ambrosetti Family &amp; Business Governance SA</td>
</tr>
<tr>
<td>AMG Analysen &amp; Anlagen AG</td>
</tr>
<tr>
<td>Arcus S.A.</td>
</tr>
<tr>
<td>Arkion Family Office</td>
</tr>
<tr>
<td>Arlan SA Family Office</td>
</tr>
<tr>
<td>Armada Investment Group Family Office</td>
</tr>
<tr>
<td>AS Asset Services AG</td>
</tr>
<tr>
<td>Asset Consult SA</td>
</tr>
<tr>
<td>Asset Management Partners</td>
</tr>
<tr>
<td>ATAG Family Office</td>
</tr>
<tr>
<td>ATC Group</td>
</tr>
<tr>
<td>Audiconsult Russell Bedford Family Office</td>
</tr>
<tr>
<td>Aurelia Finance SA</td>
</tr>
<tr>
<td>Azur Services SA</td>
</tr>
<tr>
<td>Barons Financial Services - Private Families</td>
</tr>
</tbody>
</table>
BBS Capital Partners
Beau & Company Family Office
Beekay Family Office
Beekay Family Office
Belesta Asset Management AG
Belvedere Asset Management
Bohnet & Schlatter Treuhand AG Family Office
Bonhote Trust SA
BSI Family Office
Bucephale Investment Management

Calibria Financial Services
Cape Capital
Capital Management Advisors
Capital Strategy SA
Cavamont Family Office
CBA Family Office
Centerseas Asset Management - Family Office
Chemolio Management AG
Close Trustees (Switzerland) SA
Compagnie Assistance Technique et Investissements SA
Cottonfield Family Office
Cuno Puempin Family Office

Da Vinci Invest Limited
DD Family Office GmbH
Delta Investment Partner AG Family Office
Deutsche Private Wealth
Ecofin Investment Consulting AG
Elsasser Family Office
Etude von Gunten Family Office
Eurogestion & Partners SA (Family Office)
Experta Family Office

Family Office de Kadora
Family Office Partnership AG
Ferguson Partners Family Office
Fideles & Associates AG Family Office
Fisch Asset Management AG
FKG Advisors AG Family Office
FKG Fritz Kaiser Group - Family Office
Floreat Family Office Services AG
Florian & Partners AG Family Office
FONS Family Office Network Service SA
Fortis Intertrust
Forvest Trust Family Office
Frey Family Office AG

Gadd & Cie SA
Global Estate Managers SA
Global Wealth Management Holdings
Glow SA Family Office
Graff Capital Management AG
GT Group Family Office
Gustavia Swiss Trust Company SA - Family Office
Hakan Hillerstrom Family Office
Hampton & Company
Hema Management AG
Heritage Capital
HNW Family Office AG
Horizon 21 Holding
Hottinger & Partners SA
Huet and Cie

IDS Capital
IFP Intermoney Financial Products SA Family Office
IHAG Holding AG
Intermarket srl

Jacobs Family Office SA

Kendris Private SA
Kernco Trust SA
Kottmann Advisory AG
Koumbis Family Office

Lakeside Services AG
LDB & Partners
Lemantrust SA Family Office
Leonardo Family Office
LHF AG - Family Office
Loedstar SA
Lombard Odier Darier Hentsch
Londinium Family Office Ltd
Lorenzo Family Office
Lungerhausen & Janson Family Office
Luserve AG - Family Office

Management Investments & Financial Engineering
Marc Rich Family Office
Marcuard Family Office AG
Marcuard Holding Limited
MC Family Office - Vollenweider & Partner
MIF Family Office
Millenium Conseils & Placements SA
Mirelis Inves Trust SA - Family Office
MKS Finance SA
Mont-Blanc Trustees & Family Office SA
Mountain Partners AG
Mourgue d'Algue & Cie Private Bank

Nautilus Invest GmbH
Nextech Venture AG (Family Office)
NIYASA Capital Management
Notz Stucki & Cie

Octogone Family Office
OLZ & Partners Family Office

P & C Family Office
Paris Miki International SA
Parly Company SA
Partners Group
Patriarch Private Office AG
Peritus Investments Family Office
Platanus Family Office AG
Plenum Family Office
Pro Fiducia Treuhand Zurich AG
Quilvest Family Office
Rahn & Bodmer
Rasini & C SA - Family Office
Reichmuth & Co Family Office
Reuben Brothers SA
Reyl Private Office Sarl
Rieter Fischer Partner AG
Rising Star AG
Rossier Mari & Associates Family Office
S & P Family Office Ltd
Saad Investments Company Ltd
SAM Group
Samagest SA
Sandoz Family Office SA
Schmid & Partners Management
SFF Private Family SA
Solutions Financieres Independantes
Spectrum Value Management
Stamm & Co AG Holding - Family Office
Stand Fast Capital SA
Stonehage Family Office
Strafin Limited
SwAM Swiss Asset Management AG Family Office
Swiss Asset Partners Holding Limited
Swiss Asset Protection
Swiss Capital Engineering Group AG
Swiss Trust AG

T.H.E. Family Office
Thalia SA
The Family Investment Office
The Hayek Family Office
Thurn und Taxis Capital Management
Trend Trust SA
Trust & Gain Asset Management SA
TS Trustee Suisse (Family Office)

Umblin Limited - Family Office
Unifortune Asset Management SA
Unigestion Family Investment Office
Union Bancaire Privee
Union Capital Group
United Family Office

Valartis Group - Family Office
ValueWorks Family Office
Verica Trust

Wentworth Capital Partners - Family Office
White Eagle Family Office

Zuri - Invest AG
Appendix 2: FO Governance Survey

Welcome! As a final year Ph.D. candidate of the IFPM Center for Corporate Governance, University of St. Gallen Switzerland (ccg.ifpm.unisg.ch) I am writing a unique, timely dissertation entitled:

New Family Office Governance

As part of the methodology to quantify the impact of governance in Family Offices, a critical step is to process and analyze the results of surveying stakeholders of Family Offices. I am investigating whether and how a board of directors in a Family Office adds value.

In order to thank you for your contribution, it would be my pleasure to send you the results of this survey. Please be insured that your answers will stay anonymous and can only be viewed by myself. No secondary party will have access to your answers and the answers will solely be used for academic purposes.

If you have any questions or concerns please do not hesitate to contact me:
vanessa.faktor@unisg.ch

Thank you for taking the time to participate in this important research.

Yours sincerely,
Vanessa Faktor

Please select the best description of your entity:

- Single Family Office
- Multi Family Office
- Commercial Family Office
- None of the above
How would you best define your entity?

- LLC
- Holding Companies
- Foundation
- Partnership
- Trust
- GmbH
- Aktiengesellschaft (AG)
- Société anonyme (S.A)
- Ltd

When was the Family Office founded?

Year

How many stakeholders does the Family Office serve?

Please specify to your best knowledge

Please indicate your role in the Family Office (check all that apply)

- Board of Directors
- Principal
- Officer
- Beneficiary
Appendix 2: FO Governance Survey

Do you have a board of directors?

☐ Yes

☐ No

Please indicate how many stakeholders have voting rights in the Family Office:

Please choose accordingly

Do you feel that every area of expertise that the Board needs is represented on the Board?

☐ Yes

☐ No

Do you feel that the following expertise at the Board level are represented?

☐ Financial Expertise

☐ Legal Expertise

☐ Risk Analysis

☐ Asset Allocation

☐ Managing Selection and Monitoring

☐ Information Aggregating and Reporting

☐ Philanthropy

☐ Estate Planning

☐ Banking

☐ Relationship Management

☐ Concierge services
Does the Family Office proactively organize any of the following programs for its members?

☐ Educational Programs

☐ Recreational Programs

☐ Communication Programs

☐ Not applicable

How would you describe the decision making process in the Family Office?

☐ Very Dissatisfied

☐ Somewhat Dissatisfied

☐ Neutral

☐ Somewhat Satisfied

☐ Very Satisfied

Do Board members receive feedback at least once a year by the owner?

☐ Yes

☐ No

How satisfied are you with the communication mechanism in the Family Office

☐ Very Dissatisfied

☐ Somewhat Dissatisfied

☐ Neutral

☐ Somewhat Satisfied

☐ Very Satisfied
Appendix 2: FO Governance Survey

Does your Family Office have a well-defined list of goals for each year?

☐ Yes
☐ No

Is there a clear succession plan in place today in the Family Office:

☐ Yes
☐ No

Is there a mechanism in place to resolve conflict amongst the stakeholders within the Family Office

☐ Yes
☐ No

Within the last 12 months, have you witnessed any conflict between board members that you felt was NOT resolved constructively?

☐ Yes
☐ No

If you observed a conflict within the Family Office in the last 12 months, please indicate the 3 main steps that were taken to resolve the conflict?

Step 1
Step 2
Step 3
Does the Family Office conduct an annual EXTERNAL audit of all significant internal processes?

- [ ] Yes
- [ ] No

Does the Family Office conduct an annual INTERNAL audit of all significant internal processes?

- [ ] Yes
- [ ] No

Does the Family Office conduct a comprehensive risk analysis at least once a year?

- [ ] Yes
- [ ] No

How satisfied are you with the performance of the Board?

- [ ] Very Dissatisfied
- [ ] Somewhat Dissatisfied
- [ ] Neutral
- [ ] Somewhat Satisfied
How satisfied are you with the performance of the Family Office?

- Very Satisfied
- Very Dissatisfied
- Somewhat Dissatisfied
- Neutral
- Somewhat Satisfied
- Very Satisfied

If your Family Office does NOT currently have a Board of Directors, did it at some point in the past?

- Yes
- No
- Not Applicable - Currently have a Board

Do you wish to receive a copy of the results?

- Yes
- No
Thank you for expressing interest in receiving a copy of the result. Please indicate your contact information in order for me to send you a copy of the results.

Name of Family Office
Name of participant
Address 1
Address 2
City
Country
Phone Number
Fax Number
Email
Appendix 3: Curriculum Vitae

Vanessa Faktor

Date of Birth: 23/12/1983
Nationality: German/American
Residency: Switzerland

Contact information:
Mobile: +49 171 53 10 376
E-mail: vanessa.faktor@gmail.com

Education

03/09-02/13 University of St. Gallen St. Gallen, Switzerland
Doctoral Student in International Business
- Dissertation Subject: New Family Office Governance

09/05-02/07 SDA Bocconi Milan, Italy
Master of Science in Public Management (Graduated amongst top 10%)
- Accomplished academic in Corporate Governance, Strategy, Marketing of Public Entities
- Master’s Thesis “Beyond Shelter: The Journey to Self Sufficiency”, Housing Opportunity Commission

09/02-06/05 Franklin College Lugano, Switzerland
Bachelor degree in International Management with emphasis in Marketing
- Completed courses in business, management science and dynamic forecasting
- Held part-time position of research assistant in the University library

09/00-06/02 Institute Beau Soleil Villars sur Ollon, Switzerland
Certified A-Level Cambridge Examination (Graduated amongst top 5%)
Work Experience

02/09-12/10 University of St. Gallen  
St. Gallen, Switzerland

Doctoral Position at the I.FPM Center for Corporate Governance

- Worked as research assistant at Institute for Human Resources (Prof. Hilb)
- Coordinated and participated in Board of Directors Seminars (6-day round workshops with senior members from Swiss Fortune 500 companies)

01/08-12/08 The 7th Art  
New York, USA

Business Development Coordinator

- Conducted profound analysis (SWOT, PEST, market and client segmentation, competitor benchmarking, etc.) on marketing and branding for new business
- Identified potential clients and prepared initial information database for targeted contacts
- Consulted management in strategic decision making for expansion to different geographical locations

09/06-07/07 JP Morgan Chase  
New York, USA

Internship in department for Investment Management for Private Clients

- Researched strategic investments for pension funds with over US $150 million book of business
- Assisted in financial advisory for clients
- Carried out customer relationship management and risk management tasks

05/06-08/06 Housing Opportunities Commission of Montgomery County  
Washington D.C., USA

Internship in Core Service Counseling

- Conducted interviews, workshops and quantitative analysis for establishing add-on services, e.g. infrastructure, social, educational services for section 8 residents
- Consulted on service strategies in order to improve tenants’ social economic status
Awards and Honors

01/07-05/08 United Nations (NGO) Airline Ambassadors New York, USA

Pro Bono Director of Protocol

- Managed young leadership events, e.g. 10 day mission to El Salvador delivering medical supplies to orphanages

09/10-09/11 Wharton Business School Philadelphia, USA

Visiting Scholar at the Sol. S. Snider Entrepreneurial Center

- Invited as an international visiting scholar to present dissertation subject and participate in doctoral seminars

09/00-06/02 Institute Beau Soleil Villars sur Ollon, Switzerland

Student and member of the student committee (prefect)

- Honored with award in economics, received Outdoor Leadership School Degree

Additional Skills

Languages:

- German (mother tongue)
- English (fluent)
- French (basic written and spoken)

EDV:

- Proficient knowledge of Microsoft Office Programs Excel, Power Point, Word
- Knowledge in data base software Qualtrics Labs
Hobbies and Other Extracurricular Engagements

- Active in extreme sports: black ski league, licensed PADI diver, completed outdoor leadership course and trained for hiking Mount Kilimanjaro
- Engagement in professional and social networks: Ask the Circle, Nexus Summit United Nations, HSG Alumni Club Rhein Main, and Swiss Boarding School Association, WIZO