EXPLORING A SECRETIVE ORGANIZATION: WHAT CAN WE LEARN ABOUT FAMILY OFFICES FROM THE PUBLIC SPHERE?

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EXECUTIVE SUMMARY

When *Bloomberg* published its 2010 ranking of the “Top 50 Family Offices”, it showed that they had nearly 500 billion dollars under management. A broad, global audience became aware of this specific type of organization, which is growing in importance. Family offices usually remain unnoticed because they tend to avoid publicity. Since the financial crisis, family offices have become strong competitors for institutions dedicated to private and investment banking. Their economic power may further increase in the coming years: first, Capgemini and Merrill Lynch assert that the number of wealthy individuals with investable assets exceeding 30 million dollars is steadily growing. Second, family offices benefit from the erosion of trust in established financial institutions on the part of wealth owners.

Consider the example of SandAire, which was founded in London in 1996 by Alexander Scott. His family had generated a huge fortune by selling its fourth-generation family business, Provincial Insurance, in 1994. Scott had a strong motivation: protecting and preserving his family’s wealth. After some years, he opened SandAire to other families. They were attracted by Scott’s first-hand experience and neutral advice in managing family issues and preserving wealth.

We explore the business press from three countries over the period from 2000 to 2010 to provide a deeper understanding of family offices.

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FAMILY OFFICES AS AN UNDERRESEARCHED PHENOMENON

A family office serves as an administrative body that exercises control over complex financial and personal issues. It provides advice to one or more families over several generations.

Family offices have been established by wealthy families for several centuries. Early forms can be traced back to the European private banks that were founded by wealthy merchants more than 500 years ago, such as the Medici Bank in Tuscany. In the 19th century, business-owning families in the U.S. adopted this concept. They hired managers dedicated to wealth planning and asset allocation, while family members were travelling and doing business. Examples are the offices implemented by the Rockefeller, Weyerhaeuser and Phipps families.

Generally, single-family offices differ from multi-family offices. A single-family office serves a sole family, whereas a multi-family office offers its services to multiple families. Institutionally backed entities or subsidiaries of financial services companies or banks, for example, also provide family office-type services to wealthy clients.

Powerful Organizations in the Family Context

The governance of family businesses has attracted the interest of many researchers, managers and consultants for many years. They have mainly examined the ownership structures, management or board of family firms. However, they have hardly considered family offices that act as influential organizations at the intersection of families and their businesses.

First, family offices improve the governance of family businesses, which are pertinent in virtually all economies. Second, they are highly relevant investors. For example, they provide financial resources to venture capital funds and promote the formation and growth of start-ups. Third, family offices often support their wealthy clients in philanthropic endeavors. Finally, they constitute an increasingly internationally operating segment of the financial services industry. They are no longer confined to the U.S. but have expanded to other regions, most notably Europe.

The Growing Importance of Family Offices

Bloomberg reported that, on December 31, 2010, the 50 largest family offices had 477 billion dollars under management. Their power may further increase: according to the World Wealth Reports published by Capgemini and Merrill Lynch, the number of ultra-high net worth individuals with investable assets exceeding 30 million dollars was estimated at 55,000 in 1999, 85,400 in 2005 and 103,000 in 2010.

Our article serves three purposes: First, we clarify the family office concept and its relevance for our understanding of the business activities and wealth management of families.

Second, we classify public perceptions of family offices into five clusters. These clusters summarize our collective wisdom on an organizational form that is frequently used for family and business governance as well as family wealth. Third, we outline opportunities for how the analysis of family offices can contribute to current debates in economic life.

OUR STUDY

A Systems Perspective on Family Offices

We adopted a systems perspective for the exploration of family offices in the public sphere. According to this approach, family offices are surrounded by *environments,* which are characterized by different economic and cultural conditions.

The *family office* includes the *family* and the *office* as constituting subsystems and *ownership* and *management* as connecting subsystems. The four subsystems are affected by *individuals.* These can act as, e.g., family office owners and/or managers, employees and clients while being family or non-family members or external partners.

Data Collection

We explored family offices by analyzing articles from three business newspapers. This approach is suitable because of the availability of comparable data that is independent of access to informants and tracks changes over time.

To ensure comparability, we scanned the content of the media coverage of family offices. We retrieved articles that had been published in the London-based *Financial Times* (in English), the German *Financial Times Deutschland* (in German), and the New York-based *Wall Street Journal* (in English) from 2000 to 2010 from the LexisNexis and the ABI/INFORM Global databases. The analysis of newspapers from different countries is crucial to avoid distortion. We opted for the U.S., Germany and the U.K. The U.S. has a long tradition of family offices. Germany is Europe’s largest economy and is strongly affected by family businesses. The U.K. is Europe’s leading center for financial services.

We identified 377 articles in the *Financial Times*, 110 articles in the *Financial Times Deutschland* and 67 articles in the *Wall Street Journal*. Because both coauthors are fluent in English and German, we could independently and interchangeably retrieve, scan and read the selected material.

Data Analysis

We applied a human scored system involving the classification of sentences from newspaper articles according to categories based on the systems approach.

We initially coded the data separately, focusing on the identification of issues that were likely to match our categories. We discussed our preliminary results both internally to assure consistency of interpretation and in a workshop on family offices to test whether the retrieved articles satisfactorily reflected reality. The workshop was attended by owners and managers of family businesses, family offices, banks and consulting companies.

Based on these discussions, we refined our coding scheme. For instance, we integrated the subsystem *individual* into the other categories because individual attitudes and actions affect all other subsystems. Drawing on the refined coding scheme, we reanalyzed the data. If any doubts arose, we discussed and agreed upon inconsistent results.

Focusing on the *environment*, we analyzed the selected articles with regard to prospective clients and the international growth of family offices. The latter is influenced by national economic cultures. Referring to the *family*, we were interested in the origin and dispersion of family wealth and family members' claims and expectations. We analyzed our data in relation to the activities and services provided by different types of *offices*. We focused on *ownership* structures and the market value of family offices. Referring to *management*, we analyzed revenue and cost structures and personnel recruitment and retention, as well as family office managers' skills and capabilities.

ENVIRONMENT

Market Potential

Until 2010, the global number of prospective clients – particularly ultra-high net worth individuals (UHNWIs) having more than 30 million dollars in investable assets – has risen to 103,000. The growth of prospective clients occurred both in developed economies, such as the U.S. and Germany, and developing economies, such as China, the Middle East, India and Russia.

The U.S. currently has the largest population of high net worth individuals (HNWIs). In 2005, 2.5 million millionaires were located in the U.S., compared to 7.2 million worldwide. Within Europe, Germany has the largest number of prospective clients. Future growth in the number of prospective clients is expected to be strongest in developing economies, especially in Asia. At least 25 percent of the world’s HNWIs live in the Asia-Pacific region, including 300,000 in China.

FOX Family Office Exchange, the U.S.-based network of wealth owners, family office executives and wealth advisors, estimated that the number of family offices in the U.S. had risen from 3,000 to 5,000 in 2007. A key driver of this growth has been the inter-generational transfer of wealth in the last two decades. There are strong indications that there are hundreds of family offices in Europe. Their use is much more widespread in the U.S. than in Europe. Only 18 percent of European UHNWIs use family offices. The percentage in the U.S. is much higher, although wealthy families control a similar amount of assets (1,900 to 2,000 billion dollars) in both regions.

Growth and Internationalization of Family Offices

Single-family offices have difficulties in managing complex portfolios and getting access to prominent private equity or hedge funds.

> Some of the world's wealthiest families which have traditionally managed their affairs through a dedicated company are seeking help from financial advisers with bigger resources – a development that could extend the reach of multi-family offices across the globe. The financial markets downturn exposed the way single-family offices often faced hurdles managing complex portfolios, hiring top talent, or boosting due diligence across the globe. (*Financial Times*, November 9, 2009)

Therefore, a general trend towards multi-family offices is discernible. This development is accompanied by a trend towards internationalization. A case in point is the U.S.-based GenSpring Family Offices, a subsidiary of SunTrust Banks, which manages assets totaling 15 billion dollars for 600 families. In 2007, it acquired TBK Investments, a family office serving clients in Latin America, Spain and Italy. In 2008, it announced plans to expand in Europe and become the first family office in the world with a global brand.

Another example is U.K.-based Fleming Family & Partners. It sold a stake of 20 percent to Standard Chartered, a bank with a strong focus on emerging markets, to expand its business in Asia and the Middle East.

Family office growth in Europe is most significant in Germany and the U.K. In Germany, which is dominated by family businesses, it has been triggered by a large inter-generational transfer of wealth. In the U.K., growth is caused by the immigration of wealthy families from Russia, Asia and the Middle East to London.

The Asian Market

Hong Kong and Singapore have emerged as single-family office hubs in Asia, where family offices, especially those reaching multiple families, are relatively rare. Asian UHNWIs are reluctant to allow multi-family offices to manage their fortunes. The slow growth of family offices in Asia is related to this region's economic culture. There is a deep-rooted mistrust among tycoons, who fear that the managers of multi-family offices could divulge confidential information.

According to a survey conducted by ABM Amro Private Bank and INSEAD Business School, inter-generational involvement in family businesses is underdeveloped in many Asian countries.

> Such patriarchs learned about business the hard way. Many have not been educated past primary school. But their grandsons – and granddaughters – may well have been to top international business schools, and have very different ideas about how the family business should be run. (…). Asian family values may help different generations to maintain a shared sense of purpose, but traditionally-minded patriarchs do not want to let go. (…). Only half of the 33 families surveyed in Hong Kong, India, Malaysia and Taiwan said they involved the next generation in managing the business. Many young graduates even felt that inheriting the family company would be a burden, as it constrained their career choices. (*Financial Times*, December 5, 2007)

Hence, family offices have to adapt to the local Asian culture. HSBC Private Bank in London, for example, has established teams for each region with a significant percentage of UHNWIs to have the ability to adapt to specific cultural needs.

FAMILY

Family Wealth

A family’s wealth may originate in a complete or partial sale of the family firm. A case in point is U.S.-based Bessemer Trust, which was founded in 1907 to manage the proceeds of the sale of Carnegie Steel.

The more branches and generations are involved, the more useful it is to centralize the family’s wealth management in a single place. An example of a dynamic family structure is the Fleming family, the founding family of Fleming Family & Partners, a multi-family office that has its roots in an investment business dating back to 1873:

> The sale of the banking business in August 2000 to Chase Manhattan Bank prompted a reassessment of what to do with the family wealth. The family, by now comprising 130 members and in its fifth generation as a banking dynasty, decided to hang on to its collection of Scottish art and to the family trust company. The latter was to form the basis of an investment house serving the interests of both the Flemings and other wealthy families. (*Financial Times*, June 29, 2007)

Family offices can also help to manage earnings from a still actively managed family business or support the next generation in coping with an inheritance.

Wealth Owners’ Claims and Expectations

Family office clients require confidentiality:

> Although demand for a family office-type of service is growing, it is not an industry that can readily advertise. As one manager says: “People won't respond towards saying 'Are you incredibly rich? Give me a call'.” (*Financial Times*, September 3, 2005)

Many clients use their family offices as a security mechanism, for instance, for communicating with the authorities, preparing the next generation for coping with the family wealth and maintaining cohesion among family members, who are frequently geographically dispersed.

Family office clients tend to be demanding and well-informed due to their backgrounds as entrepreneurs. They expect independent and sophisticated financial advice and unique investment opportunities. Wealth preservation tends to be more important than wealth creation because:

> Most families that mandate a family office with managing their assets are concerned with the preservation of their wealth. The next generation should also benefit from it. They are hence content with profits that merely compensate for losses through inflation and inheritance tax. (*Financial Times Deutschland*, December 9, 2009)

Many wealth owners claim they are treated like “instividuals”, i.e., powerful financial institutions. They appreciate the financial strength and power of a larger multi-family office or a bank. These larger organizations can provide them with access to lucrative alternative investments, such as hedge funds.

As an outcome of the financial crisis, growing suspicion of large institutions has resulted in the increasing demand of HNWIs’ for “open architecture”, which comprises neutral and independent advisors who do not need to sell the products of a specific provider.

OFFICE

Diverse Structures

Multi-family offices may emerge when single-family offices open their services to other families. For instance, in 2000, Rockefeller & Co., the U.S.-based family office serving 178 members of the Rockefeller family, realized that its number of intra-family clients would more than double within the following two to three decades. The costs of managing the monies of so many people would largely increase. Thus, they decided to acquire HNWIs from outside the family as clients.

Some banks, such as UBS, Pictet or Deutsche Bank, operate separate family office-divisions. They provide specialized services to wealthy individuals, such as investment, performance reporting and global custody. Moreover,

> some private banks such as JP Morgan offer what they call “virtual” family offices where banks give investors access to their various services and staff without setting up a separate team. (*Financial Times*, May 15, 2004)

Family offices internalize service delivery to different degrees. They can either be full-service providers or act as central coordinating points for the bundling and monitoring of services supplied by external cooperation partners. For instance, investment boutiques tend to outsource selected services to larger financial institutions to extend their range of products and services. As a result,

> the lines between boutique family-office firms and large financial players is blurring, making the offerings even tougher to distinguish. Some boutiques outsource to larger institutions to broaden their offerings, while some large

> banks have standalone multifamily offices within their empires. (*Wall Street Journal*, January 3, 2008)

Different Options for Different Categories of Wealth

In Europe, experts suggest that a fortune in the range of 200-300 million euros justifies the establishment of a single-family office. Multi-family offices typically serve families with a wealth of at least 20 million euros.

In the U.S., families using their own offices are worth at least 500 million dollars. Multi-family offices, having entered the market in the last decade, require a fortune of 10 million dollars or more. Few make exceptions to accept clients with at least 5 million dollars. U.S.-based private banks that are engaged in family office coverage use top, middle and lower level service categories, depending on a client’s net worth.

Services and Activities

Family offices coordinate four strands of tasks: first, *asset protection,* including stock holding, conflict management, tax and succession planning and family education; second, *asset management,* pursuing an institutional approach to investment; third, *asset control,* involving reporting and financial accounting; and finally, *personal affairs* or “concierge services”, for example, coordinating philanthropic activities, walking the dog or selecting schools for the children.

> Pierre-Alain Wavre, head of family office for Pictet & Cie, sees this as part of the firm's role as a problem-solver for

> families. “What they need is one entry point - they don't want to deal with too many people, they expect one person to deal with it,” he says. Services offered include relocation, organising staff, arranging healthcare and booking aircraft. “It's all of the things you could imagine, and all of the things you can't imagine,” says Wavre. “It's not an 'out of the box' service. We just quietly do it.” (*Financial Times*, June 7, 2008)

OWNERSHIP

Owners and Ownership Structures

Families are an important category of owners. For instance, U.S.-based Bessemer Trust is fully owned by the Phipps family. The German Quandt family had a 38 percent stake in Sauerborn Trust, while a further 37 percent stake was originally owned by Jochen Sauerborn, one of the founders of the family office, until its sale to UBS. Similarly, Andreas Jacobs, a member of Germany’s Jacobs coffee roaster dynasty, is the largest stakeholder of Focam, a German multi-family office that he and a non-family partner founded in 1999.

The Fleming family, together with company directors and staff, holds a 60 percent stake in Fleming Family & Partners. The Stanhope family office gave 10 percent of its equity to five families. In return, it was allowed to manage their assets. Bessemer Trust holds a 20 percent stake in this family office, improving Stanhope’s access to U.S. capital markets.

Mergers and Acquisitions

International banks and multi-family offices are increasingly interested in acquiring family offices. Credit

Suisse, for example, acquired Frye-Louise Capital Management in 2001. Its competitor UBS acquired the German Sauerborn Trust in 2004. These banks sought to strengthen their positions in the market for HNWIs, the most profitable segment in private wealth management. In addition, international asset allocation had become more challenging and UBS, for instance, had the required IT platforms to address these challenges. In 2005, as an independent family office, Fleming Family & Partners bought Sagitta Asset Management. The rationale behind this was to benefit from Sagitta's expertise in property and hedge fund strategies and close a salient knowledge gap.

Market Valuation

Family offices may have high market values. For instance, Fleming, founded in 2000, was valued at 36 million pounds by external auditors in mid-2004. In 2005, Standard Chartered, a bank focusing on emerging markets, purchased a 20 percent stake for 45 million pounds, valuing the business at 225 million pounds.

> The deal raised some eyebrows among private bankers who were surprised that the business, which made a pre-tax profit of just Pounds 8m in the year to March 2005, should deserve such a punchy valuation. (…). Many believe Fleming Family has the ideal calling card. "They are a large family that is extremely well networked," says Mr Maslinski (director of Maslinski & Co, a wealth management consultancy). "They combine that with being a strong financial brand. And they've had a recent experience of divesting of the core asset." (*Financial Times*, December 10, 2005)

That this was a surprisingly high valuation becomes even more evident when it is compared with the 2004 valuation of

Sauerborn Trust, which was acquired by UBS for an estimated amount of 200 million euros.

> The roughly one hundred families and family businesses, that have entrusted a total of more than 6 billion euros to the Bad Homburg-based Sauerborn Trust since the late 1980s, are from now on advised by the German subsidiary of UBS. The purchase price, which was paid in cash, was not disclosed. Industry experts estimate it at 3 percent of assets under management, i.e. 200 million euros. (*Financial Times Deutschland*, December 1, 2004)

According to a different source, the purchase price was significantly lower and the founding partner Jochen Sauerborn

> sold it for 133 million euros to the Swiss bank UBS. (*Financial Times Deutschland*, September 18, 2006)

Even if we assume that the purchase price was approximately 3 percent of the assets under management, that is 200 million pounds, there is a marked difference to the valuation of Fleming. The latter had 3.7 billion pounds in assets under management when Standard Chartered acquired a 20 percent stake. According to the “3 percent of assets under management” rule, the market valuation of Fleming should have been merely 111 million pounds rather than 225 million pounds (which equates to more than 6 percent of the 3.7 billion pounds of assets under management).

Sauerborn Trust, as the pioneer of family offices in Germany, most likely also had a strong financial brand. However, - in contrast to Fleming – it could not offer the experience of divesting the core asset. It also had not preserved a family’s wealth for five generations, as the Fleming family had done. This indicates that these factors have a considerable influence on the valuation of family offices and demonstrates that families who set up and run a multi-family office have the opportunity to commercially uniquely benefit from their experience and networks.

MANAGEMENT

Governance and Control

Single-family offices can be managed in different ways. For example, they can be led by an administrator, a full-time portfolio manager and one or more investment managers who choose among investment opportunities according to the risk preferences of family members.

The control structures of multi-family offices in which several families jointly use the dedicated personnel and infrastructure are more complex than those of single-family offices. They must often counter criticism,

> saying that because the founding family has ultimate control, the firms may not give the same level of service to others. Many families, like the Rockefellers and Graces, don't disclose how much money their families have under management at the multifamily office, making it difficult for outside clients to assess their degree of control. “The reason a family becomes a multifamily office is to defray its own investment,” says Gregory D. Curtis, managing director of Greycourt & Co., a Pittsburgh-based wealth-advisory firm. “It's hard to know if the best people in the office are giving the real opportunities and attention to the founding family or to outside clients.” (*Wall Street Journal*, June 10, 2004)

Skills and Capabilities of Family Office Managers

Family office managers need a broad range of skills and expertise, for example, in stocks, real estate, tax law or private banking. They usually have degrees in economics, law or accounting. They are likely to have a background in the banking, finance or insurance industries, where they have typically occupied leading management positions before joining the family office.

Less frequently, family offices such as Stanhope employ former fund managers. In many cases, managers of single-family offices are persons who have been responsible for the financial assets in the former family business.

Employees need to possess social and emotional intelligence to cope with families who may be involved in serious conflicts:

> Huge wealth creation means more money is at stake for a lot of families - which can exacerbate pre-existing tensions. Divorce and second marriages lead to conflicts among children and stepfamilies over inheritances. […] There may also be a generational shift, with younger families more willing to talk openly about family finances than their more tight- lipped ancestors. “Members of older generations were more reluctant to discuss these issues,” says R. Hugh Magill, senior vice president and group head of personal fiduciary services at Northern Trust Corp. in Chicago. “The thought was, you don't talk about money.”(*Wall Street Journal*, October 21, 2006)

Regarding the appointment of the directors of family offices, ‘soft’ criteria are important:

> German millionaires and billionaires select the managing directors of their private family offices mainly based on their social competencies. According to a survey of 40 family offices, the director’s personality is the most important selection criterion. In particular, loyalty, reliability and modesty are of key importance. (*Financial Times Deutschland*, May 5, 2009)

Personnel Recruitment and Retention

Due to the growing demand for family offices and a relatively limited pool of qualified persons, recruitment is becoming increasingly difficult. Single-family offices in particular have difficulties in hiring and retaining specialized employees:

> “The great obstacle that single-family offices have is to attract and retain a high-quality investment team,” says Julien Sevaux, managing partner of Stanhope. “After a while there's a conflict between management, who are ambitious and want to set up a business, and the family, who just want them to run their money.” (*Financial Times*, June 12, 2007)

Hence, family offices are likely to entice managers away from competitors. To attract and retain employees, salaries and bonuses need to be similar to those that they would earn, for example, as managers in the private banking industry. Most experienced managers can earn up to 3 million dollars per year. In 2006, the median annual compensation for a family office manager in the U.S. was 205,000 dollars.

Additionally, in some family offices, managers are invited to share the wealth owners’ investment opportunities and invest their own funds along with them. Alternatively, their children have access to the same elite schools attended by the wealth owners’ children.

Revenues and Costs

Because family offices employ specialists, the costs for qualified labor are relatively high. In Germany, the start-up costs of a single-family office employing one or two persons are estimated to be approximately 3 to 3.5 million euros. At least 2 million euros per year are needed to run the family office.

Some banks claim up to 2 percent of assets as an annual fee. Multi-family offices charge a percentage of assets under advisement ranging from 0.25 to 1.50 percent. Financial advisors in family offices either require a fee of approximately 1 percent of the invested amount of money or a fixed fee hourly of approximately 100 euros.

In the U.S., some multi-family offices charge hourly rates of 100-385 dollars, depending on the type of service required. Wealth owners are likely to refund the fee for the management of investment funds and provisions. These “kickbacks” signal a family office’s commitment to an “open architecture”. Fees can also be charged in terms of set fees for specific service offerings. Alternative investments, such as hedge funds, frequently involve additional fees.

FIVE CLUSTERS OF INSIGHTS FROM THE PUBLIC SPHERE

Based on the analysis of the collective wisdom in the public sphere, we identify three categories of family offices: first, institutionally backed firms, such as divisions or subsidiaries of banks or investment companies; second, multi-family offices that often but not always emerge from single-family offices; and third, independent advisors, such as small investment boutiques that manage the assets of wealthy individuals without providing any additional services.

Being aware of the roughness of these categories, we suggest referring to family office *structures* rather than family offices to fully capture their diversity. Our findings can be classified into five clusters:

1. *Environment*. The global increase in the number of wealthy individuals has fuelled the growth and internationalization of family offices, with multi-family offices as the dominant structure. Asian wealth owners have not yet fully embraced the concept of multi-family offices because it is not supported by their economic culture.
2. *Family*. Family wealth originates from the sale of the family firm, inheritance or earnings from the still existing family business. Family office clients expect confidentiality, flexibility, sophisticated advice and tailored and independent financial products and services.
3. *Office*. The family office concept includes a variety of organizational structures that pursue different business models, such as single-family offices, multi-family offices, institutionally backed firms and independent advisors. Service delivery, which refers to asset protection, management and control, and personal affairs ("concierge services"), can be internalized to varying degrees.
4. *Ownership*. Family offices can be owned by families, non-family managers, financial institutions and/or other family

offices. A family office's market value depends on its brand, networks, expertise and experience. This implies that family offices do not necessarily have to generate high profits to achieve a high market valuation if they are owned and led by families.

5. *Management*. The management of single-family offices is less complex and cost-efficient than that of multi-family offices or banks. Revenues and fees vary widely. Family office managers rely on many competencies and experiences, such that the costs of dedicated personnel are high. Due to a limited number of qualified people, personnel recruitment and retention require sophisticated incentives.

IMPLICATIONS

Geographical Distribution

The geographical distribution of the increase of prospective clients does not necessarily correlate with the geographical distribution of family offices. Although Asia has the strongest growth in potential clients worldwide, wealthy individuals in this region are reluctant to adopt the multi-family office concept. However, in which ways and to what extent the family office concept has to be adapted for Western multi-family offices to grow globally remains unclear.

Business Models

Family office structures face a tension between the creation and preservation of wealth. The latter is most likely accomplished by private offices with single families in reach that do not necessarily need to generate higher performance growth compared to other family offices. Multi-family offices and private banks or dedicated service providers aim to create wealth and seek to achieve a competitive advantage in their respective markets. These family office structures must steadily increase their client bases by attracting additional families. Their success leads to increasing market valuations and strong brands.

Future studies could explore business models based on three dimensions: first, how networked a value proposition is in nature, meaning the extent to which it is based on services provided by experts within and across family offices; second, the extent to which wealth creation is emphasized relative to wealth preservation; and, finally, the extent to which a value proposition is client-focused, that is, holistic and personalized.

Philanthropy

Family offices are increasingly asked for advice on philanthropy, especially in terms of selecting charitable projects and evaluating their outcomes. Philanthropy is important for two reasons: first, engagement in charitable projects fosters cohesion among family members across branches and generations by uniting them around a shared set of values, and, second, it is beneficial in teaching the next generation the value of money and the responsibility that it implies.

> Ironically, the key to preserving wealth is, in many cases, a coherent plan for giving some of it away. “People over the last 10 years have become so wealthy, they feel they want to give something back,” says Treyz (head of JP Morgan in Europe). “They also feel there is a destructive power of wealth – how much is too much? – and philanthropy is a way of establishing and preserving family values. It gives a core of unity that passes from generation to generation.” (*Financial Times*, February 22, 2003)

The analysis of the trend of families engaging in philanthropic activities, assisted by family offices, could contribute to our current knowledge on funding relationships in social entrepreneurship.

CONCLUSION

In our study, we have relied on publicly available information on family offices. Caution is necessary when considering the generalizability of our results. For instance, our finding that multi-family offices emerge as the dominant structure in our data can be attributed to the fact that many of them appreciate public visibility as a means of attracting new clients. Single-family offices tend to be reluctant to disclose their identities in the media. There may be more of them than our findings imply but exact numbers are not available.

We also need to be wary of the clichés that are repeatedly reported by newspapers as a response to readers’ desire to be entertained. For example, many articles emphasize “concierge services” as an important strand of activities. However, many if not most family offices, especially multi-family offices and banks, rarely engage in, e.g., walking the dog or making travel arrangements and primarily concentrate on wealth protection and management.

Overall, it is our intention to highlight the importance of family offices for research and practice. The limited awareness of this type of organization does not mean that family offices do not deserve our interest. Their confidential and secretive natures while being extremely financially powerful organizations make them appear to represent a multifaceted phenomenon. Therefore, they may be of interest to researchers, students and managers all over the world.

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