



Working Together for Common Purpose: The First National Study of Family Philanthropy Through the Family Office

Executive Summary

Featured in the Full Report:

Benefits and Challenges
of SFOs

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INTRODUCTION

As the field of family philanthropy evolves, the options available to families for managing and making the most of their giving continue to keep pace. One option that a growing number of philanthropic families are considering is the creation of a single family office, a private entity that manages the investments and trusts for a single wealthy family—or multiple branches of a family—while also providing a variety of other personal services, among them philanthropic advising or the housing of one or more family foundations or funds.

This special *Passages* report is based on results of the first national study to explore the relationship between family offices and family philanthropy, identifying common themes for both success and failure. The study draws on personal interviews and results from a survey of family offices to highlight emerging best practices in this area.

To download the full copy of this report, please visit the National Center for Family Philanthropy's website at www.ncfp.org. For press inquiries and additional information, contact the National Center at 202.293.3424.

PROJECT PARTNERS

About the National Center for Family Philanthropy: www.ncfp.org

The National Center for Family Philanthropy is the only nonprofit resource center dedicated exclusively to families who give and those who work with them. The Center works to strengthen the field of family philanthropy and to support giving families through research, education, convenings and a national network.

About the Family Office Exchange: www.familyoffice.com

FOX is a global community of wealthy families and their advisors, pursuing best practices for optimal family legacy and wealth management. FOX is an objective, independent resource to help high net worth families, family office executives,

and their advisors more effectively understand their responsibilities and enhance their opportunities as managers of family wealth and well being.

About Threshold Group: www.thresholdgroup.com

Threshold Group leads a select yet diverse group of families and family foundations through the opportunities and challenges of family wealth. Our services—financial planning, investment advisory and family office—provide the solid foundation necessary for a family to grow, thrive, and give back, not just for a lifetime, but for generations. Founded as a family office in 1999, Threshold today guides private family investments of \$2.7 billion and serves more than 50 families and family foundations across the United States.



AN INTRODUCTION TO THE FAMILY OFFICE

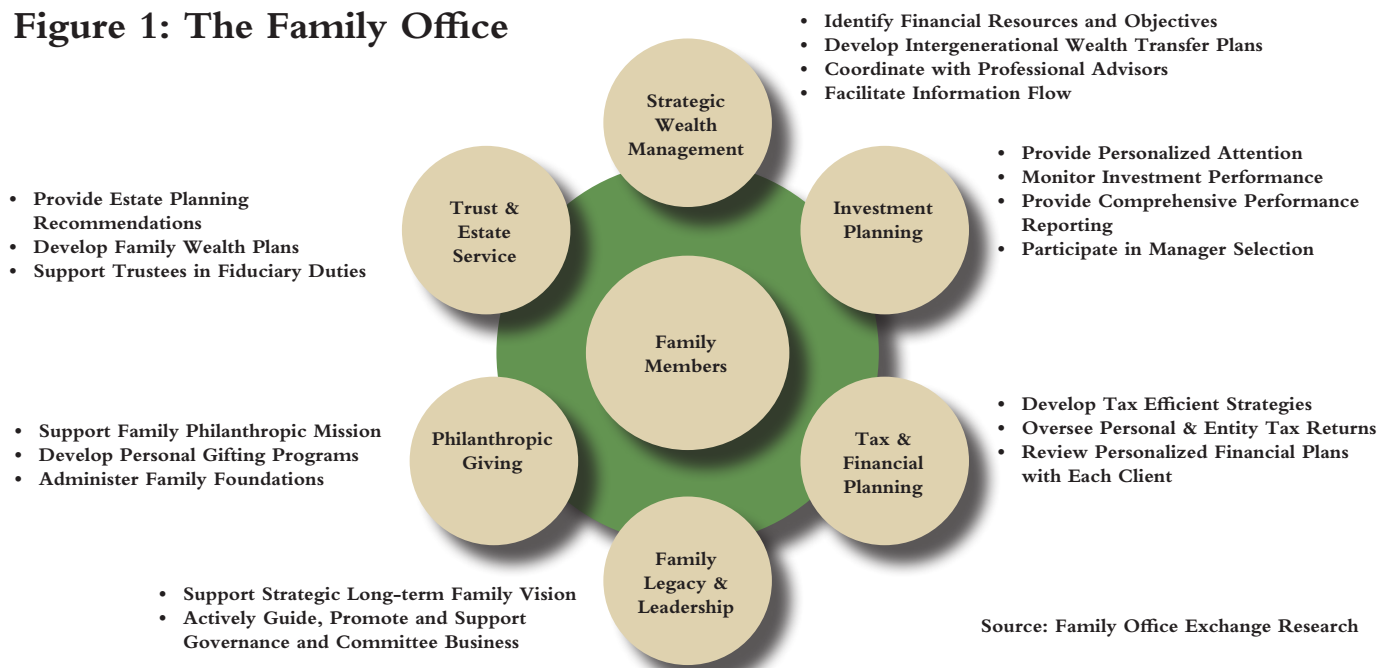
Family offices offer a wide range of integrated services, determined by the family’s priorities. There is no one model for a family office, and one size does not fit all.

The ideal family office structure and services reflect the mission and goals of the family. Common reasons families cite for starting a family office include:

1. *Coordination:* The family office coordinates multiple dimensions and relationships of a family including philanthropy, investing, estate planning, tax planning, and custodial services, banking, etc. Beyond these professional services, the family office can coordinate family governance, communication, education and other support required to meet the family’s mission and goals.
2. *Control:* Given the complexity inherent in managing the financial, philanthropic and personal interests of a wealthy family, a family office can provide owners with control of the entire process and a single point of contact. It can offer the family and their advisors a centralized structure to make management decisions and ensure alignment of interests across all entities.
3. *Conflicts of Interest:* Family members may not always be aware of the embedded conflicts of interests that exist in relationships with product and service providers. The role of the family office is to ensure objective advice and alignment of interest with the family’s goals and objectives. The family office professionals are relied upon to provide due diligence and should be required to provide full disclosure of any conflicts of interests.
4. *Confidentiality:* In a high tech world where privacy is a challenge, particularly to higher profile families, the family office can play a critical role in providing a secure environment for maintaining family records and personal information. The family office may also oversee personal security for family members.
5. *Customization:* The family office structure can provide a great level of flexibility and customization of services. As a family’s interests evolve and generations expand, the family office’s focus on the family’s situation can enable it to evolve and grow with the family.

According to Family Office Exchange, a single family office should have at least a hundred million dollars in assets to be economical. In order for the office to remain viable, those assets must be nurtured and grown to keep pace with the growth of the family.

Figure 1: The Family Office



STUDY FINDINGS: STRUCTURE AND SATISFACTION

This study provides a baseline for understanding family foundations within family offices. Key findings include:

- **There is a range of satisfaction with the relationship between the entities.** While survey respondents reported a high degree of integration and cooperation, the personal interviews revealed candid insights on the challenges associated with housing a family foundation within a family office, particularly from the foundation staff perspective.
- **Philanthropy is taken seriously by the families and the family offices:** 84% of study participants have paid staff for the foundation and 60% have active boards of directors that oversee the foundation's giving, with 34% reporting that a foundation CEO serves as the primary decision-maker on giving.
- **The majority of family offices are working with three or more generations, and families are often two or more generations removed from the founder(s).** 100% of respondents are working with more than one generation, with 87% of family offices serving three or more generations.

STUDY FINDINGS: ROLES AND BENEFITS

In addition to looking at the demographics of family foundations housed within family offices, this study also took a close look at the roles and benefits offered by this structure. Key findings include:

- **Family offices report a high degree of involvement in the family's philanthropy and foundation management.** The majority of respondents noted that the family office is involved in helping the foundation find a strategic focus, leverage the impact of its giving, and measure the effectiveness of its grants.
- **All parties place high priority on engaging and developing the next generation of family leaders, but neither side is spending much time in this area.** Neither family office staff or family foundation staff spend a significant amount of time on this activity.

BENEFITS OF MANAGING PHILANTHROPY THROUGH THE FAMILY OFFICE

A broad set of distinct advantages for enhancing the family's philanthropy through a family office structure were cited by respondents to the survey:

- *Integration* of functions and services
- *Alignment* of the family's shared values as they relate to governance, financial management, long-term investment strategies, and family leadership development.
- *Enhancement* of investment advisory services offered by the family office to leverage support for mission-related investment activity by the foundation
- *Economies of Scale*, particularly when the family office supports multiple giving vehicles or foundations.
- *Efficiency* for family members and external vendors.
- *Communication* channels are simplified, with one point of contact for family members.
- *Next Gen Education* can be enhanced within the family office in areas such as financial literacy, socially responsive investing, family communication, and mentoring/leadership.

CHALLENGES OF MANAGING PHILANTHROPY THROUGH THE FAMILY OFFICE

Challenges cited by respondents to the survey and interview participants include:

- *Different languages, and different measures of success* between family office and family foundation staff can cause tensions, miscommunications, and misunderstandings.
- A *"them/us" mentality* as a result of competing interests and priorities, and a lack of respect for philanthropic goals and endeavors
- *Competition* for the attention of family members
- *The complicated and counter-intuitive restrictions* the IRS imposes on interactions because of the affiliation
- *Emotional ties* that can conflict with best practices

NATIONAL CENTER FOR FAMILY PHILANTHROPY

GETTING IT RIGHT: BEST PRACTICES FOR THE FAMILY OFFICE AND FAMILY FOUNDATION RELATIONSHIP

- **Clarity of Goals:** The family offices and family foundations participating in this survey were most successful when they both shared a commitment to the common purpose they served: the goals of the family.
- **Effective Leveraging of Strengths:** Foundations that utilize the investment management and financial expertise of a family office can expand their impact beyond grantmaking, through mission—related investing and combining complementary skillsets between the non-profit foundation and the commercial family enterprise.
- **Regular, Structured Communication:** Communication is at the center of a wheel with many spokes. The family needs to communicate with each other and with staff; the family office and foundation staff needs to communicate with the family and with each other; and, ultimately the foundation staff has to communicate with the community.
- **Integration:** Another key to success is the careful integration of every family asset when setting up the family office. A smart family office CEO will understand that the family foundation can enhance operations by providing a vehicle for bringing generations of the family together around a common purpose that has little or nothing to do with the preservation or inheritance of money.
- **Clear Reporting Relationships and Governance:** There must be agreement between family leadership about the blueprint they develop for either creating the family office, or bringing their foundation into that environment. Alignment at the top is the first crucial step in the process. If the family is in disagreement, those conflicts and misunderstandings can seep into staff relationships.
- **Managing the Shared Environment:** if the family wishes the family foundation and the family office to be perceived as having equal importance, they should recognize that office placement and assignment send unspoken messages to staff.

RECOMMENDATIONS FOR THE FIELD

The study suggests a variety of key recommendations for the family office and family philanthropy fields, including:

1. *There should be a greater investment in professional development for family office staff on philanthropy issues.* Family office staff are often involved in a significant way in supporting the family’s philanthropy, and providing them with more tools and training in this area can help to make philanthropy more effective both for the family, and for the foundation’s grantees.
2. *Families should set clear expectations and boundaries for both family office and family foundation staff.* There must be alignment among family members about the respective roles of these entities for the organization to function smoothly and effectively.
3. *There needs to be a common language of understanding between family foundation and family office staffs.* Families should be sure to recruit, train, and promote individuals who are able to learn and speak this language.
4. *Families and family offices need to invest more in educating and training the next generation for leadership.* “Next gen” education is high on most family’s list of goals for the family office, but few families are able to carve out the amount of time needed to do this well.
5. *Organizations that support family offices and philanthropy have a role in developing best practices for strong governance and effective communications across entities.* While there are well-established networks for family offices and family philanthropy, to date little research or training has been done to support families engaged in both types of entities.
6. *Families that manage their philanthropic foundations through a family office should pay special attention to the self-dealing laws and regulations, as well as to new SEC regulations governing this arrangement.*
7. *There are significant opportunities for family offices to support mission-related investing and capacity building approaches through the foundation, leveraging the expertise of their financial staff and expanding the impact of the philanthropic arm.* Mission-based investing is of increasing interest to newer family offices and philanthropic families.