



The Family  
Office Association

# THE FAMILY OFFICE INDUSTRY: **FACT OR FICTION?**

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# The Family Office Industry: Fact or Fiction?

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While family offices come in many shapes and sizes, one universal experience is that everyone working in a family office has at one time heard or said the following platitude: “Once you know one family office, you know one family office.” We term this popular saying “the first law of family offices.” Besides acting as a universal introduction for any family office plenary session, this phrase succinctly distills one of the core truths of family offices: all families, and therefore family offices, are inherently different. (1) The phrase is more than an empty platitude. In fact, it encapsulates an entire philosophy for family office professionals and therefore merits a more careful reading.

## The First & Second Law of Family offices

The first law of family offices speaks directly to what many people experience when they begin working for a family office: Once you know one family office, you know one family office. Applying any professional expertise to a family office environment is not a simple 1 to 1 equation; it requires a careful consideration of the needs and mission of the family, and these needs are often driven by forces that are not easily captured in a traditional business or MBA curriculum.

If the first law describes the uniqueness and individuality of all families, what we refer to as the “second law of family offices” speaks to one of the most universal problems experienced by many wealthy families: “Shirtsleeves to shirtsleeves in three generations.” James E. Hughes Jr. has written extensively about the transcultural phenomenon that the vast majority of family wealth disappears within three generations. (2) Hughes and others have dedicated their life’s work to understanding the nature of legacy and the methods and approaches to best manage it.

his second law captures the generational forces that often impede the legacy and institutionalization of family wealth beyond three generations. Only a very few families and family offices are able to develop legacy structures and systems that enable multiple generations of wealth to build and serve the legacy, mission, and needs of the family and its subsequent generations.

To negotiate the inherit tension between these two laws, something like a “family office industry” has taken shape. In this context, the “industry” refers to a knowledge base of professionals dedicated to helping families navigate complex systems and manage diverse

(1) This principle is not merely an invention of modern marketing, Leo Tolstoy offered his own spin on the phrase in the opening to Anna Karenina: “Every unhappy family is unhappy in its own way.”

(2) James E. Hughes Jr. Family Wealth, Keeping It in the Family: How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations. 2004.

multi-asset portfolios. In order to better understand how and why these professionals coalesced around this concept of “industry”, we’ll need to dig a little deeper into the first law of family offices: “once you know one family office...”

The ubiquity of this phrase speaks to the way it captures the sheer diversity and broad range of special projects that one encounters while working with or for a family office. It also explains the very reason so many people enjoy family office work: they’re fun, idiosyncratic settings where professionals can build real, long-lasting value in the form of stewardship. Family office work is unique to each family, their background, their mission, their design and their governance. Family offices are typically not structured like a traditional business and the drivers that motivate success are not the same drivers that motivate traditional businesses. Because they are not constrained by traditional corporate drivers, they take on a look and feel that is uniquely tailored to the family itself.

The idiosyncrasies endemic to family offices reveal a deep irony about the first law as it relates to the business of family offices: if it is true that all family offices are different, then it would be impossible to create an industry around a set of principles or standards that define best practice for family offices. Viewed in this way, the phrase undermines the very possibility of a “family office industry”, because industry formation requires repeatable processes and uniformed, predictable outcomes. As a countervailing force, professionals have created a plethora of books, whitepapers, conferences, legal structures, and business processes in an attempt to isolate a standard set of practices that apply across a broad spectrum of family offices.(3)

A tension therefore exists between the first law of family offices and the emergence of a professional class of experts that serve families. But which force is greater, the individual idiosyncrasies of families or the universal professionalization of family office work? It’s only at this nexus that we can begin to understand the term “family office industry”. While it may seem a self-defeating and contrarian position to take, the very concept of the “family office industry” merits careful consideration. What is the term meant to describe, and by whom is the description being made?

(3) This very whitepaper and the others published by TFOA are one such example!

## Two Family Office Industries: Internal and External

In reflecting on the nature of the word “industry” as it relates to family offices, two emergent categories appear: family offices designed either inside or outside of the family itself. In the modern history of family offices, families like the Morgans, Rockefellers, and DuPonts are held up as early examples of inside family offices. These families created multi-generational institutional administrations to service the management of family members and the legacy of the family. Internal family offices begin exclusively within the family and often draw some initial resources from the principle operating company. The scope of the work at the outset tends to focus around a specific project: designing a multi-generational trust, managing a philanthropic project, or administering a complex, privately owned, asset portfolio. Regardless of the genesis, as family wealth and needs grow over time, the office adapts to the new forms of complexity. It’s these individual growth paths that lead one to the concept of the first law of family offices. In many ways, these internal family offices have the character of a closed system: they are designed purely to manage and administer a set of internal dynamics; their charge is typically not to “grow the business,” but rather to serve the family as they design and implement their legacy.

Family offices that emerge outside of families typically refer to the groups and operating divisions that wealth management companies have created to utilize the language of “family offices” in order to put a container around their largest and most complicated clients. In this sense, “family office industry” describes a particular market segment that private wealth firms find useful for organizing their sales and marketing teams within their own firms. In this way, multi-family offices, private banks, and other wealth management firms attempt to co-opt the language and best practices of successful internal family offices in order to create a product offering for their wealthy customers. Viewed from this perspective, the “family office industry” is simply a segmentation strategy designed to describe a middle ground between institutional and high net worth retail sales and marketing.

These two categories of family offices utilize and rely on each other in different ways. Internal family offices invariably bring in expert advisors who often have developed their expertise in the context of a wealth management firm, trust, risk, or law firm with a particular background with family office clients. Associates, managers, and executives often migrate into external family offices because their unique experiences inside a family office is rare in the marketplace and the skills, understanding, and relationships acquired can be readily leveraged on a larger platform which benefits from broad economies of scale.

## The Business of Legacy

The relationship between internal and external family office groups is therefore more symbiotic than parasitic. Thus, it is incorrect to frame the dichotomy in moral terms—it is not the case that one is good and the other is bad—however it is useful to understand these different categories of family office because they speak directly to the schism that exists between the first and second law of family offices. Whereas the internal family office strives to understand and serve the family in accordance with its idiosyncratic and individual features, the external family office seeks to distill universal processes and operations that improve overall efficiency and allow professionals to take skills and experiences from one setting and apply them to a new setting. As a family office principal or professional, you would be well advised to use this framework for your own professional audit and consider how you can best act within the internal and external structure that you inhabit.

If the term “family office industry” persists, then we should use it carefully and with the understanding that family offices are in the business of legacy. And, in our opinion, while many external family offices engage in helping families with defining and executing their legacy, internal family offices are usually more closely in-tune with the family on this issue. Legacy is the key word that sits above the industry. The question of legacy is more aesthetic than mathematical. Some families aspire toward multigenerational legacy models, while others seek to wind down their entire portfolio within one or two generations. There is no formula to tell you what your legacy should be. Instead, careful discussion and consideration with your family, especially the younger generations, should serve as the foundation for the vision of your family’s legacy. From there, advisors can help shape that vision and develop executable plans in order to achieve your vision. Internal family offices excel at designing and implementing legacy plans for the family they serve, but struggle to apply those same systems in different contexts. External offices excel at designing repeatable processes, but they are constrained by their operational demands to fully dedicate themselves to the question of individualized legacy. The most durable and resilient family offices rely on a mix of internal and external features in order to get the most out of each area of strength.

# About TFOA

The Family Office Association is a global peer network that serves as the world's leading single family office community. Our group is for education, networking, selective co-investment, and a resource for single family offices to share ideas, deal flow and best practices. Members are not actively marketing products or services to other members and no contact information or email lists will ever be shared. Since our founding in 2007, TFOA has led the global single family office community by delivering world-class educational content, unique networking opportunities, and exceptional thought leadership to our highly curated network of the world's largest and wealthiest families. If you'd like to access our free library of whitepapers or receive event updates and more timely information please visit: [www.tfoa.info](http://www.tfoa.info)



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