+ Models
ORGDYN-603; No. of Pages 9
ARTICLE IN PRESS

Organizational Dynamics (2017) xxx, xxx—xxx

Available online at www.sciencedirect.com

ScienceDirect

journal homepage: www.elsevier.com/locate/orgdyn

Family offices: What, why and what for

Elena Rivo-López, Mónica Villanueva-Villar, Alberto Vaquero-García, Santiago Lago-Peñas

INTRODUCTION

Over recent years there has been a marked increase in scientific research on corporate governance in Family Firms. The Family Office (FO) is usually analysed as a family governance mechanism.

The traditional concept of an FO is that of a business managed by and for a family. Its main function is to centralise management of the family assets, and its financial resources come from the entrepreneurial family's capital, which has often been built up over generations. The activity of an FO ranges from the provision of traditional personal services (e.g. concierges, security, insurance and estate planning) to investments in venture capital. To create an FO as a family asset management structure, the family must have a high net wealth enabling it to take on the costs, and direct management involved.

The activities carried out by FOs can be classified within three groups:

(i) Investment-related activities (i.e., asset allocation, manager selection and monitoring, investing and investment performance measurement)

(ii) Family-related activities (i.e., philanthropy, risk management, insurance, education next generation, concierge services and security and estate planning)

(iii) Administration-related activities (i.e., banking, financial administration, information aggregating and client reporting, legal services, technology solutions and support, trust accounting and pooled and partnership accounting)

Each family will decide, based on its values, culture and objectives, what activities its FO is to carry out. The FO structure will depend on the mission and vision of each family so there is no standard configuration.

In the limited literature on FOs, there is a disparity regarding their origin and subsequent development, from both the historical and economic points of view. Some authors trace FOs back to the figure of the major domus in ancient Rome; others consider that they stem from the creation of European private Banks five hundred years ago, or from the Crusades; their adoption in the USA is related to the Industrial Revolution. Over the years, FOs have played an essential role in the transmission and growth of wealth among generations, especially over the last two decades.

Growth in a family business means that whoever is responsable for it has to deal with a dual challenge: managing the business itself, and managing both services to the family and the net wealth the family has accumulated over the years. Initially, specialist assistance is usually sought for managing assets, especially in areas such as accounting and keeping records. This need for outside aid generally becomes more pressing when the family business is put up for sale and a large amount of liquidity is urgently required. The second and subsequent generations, which inherit large fortunes, or acquire them suddenly after the sale of the family business, often have neither the time nor the experience needed to properly manage their assets.

An FO is a very useful tool for business families owning large fortunes to manage their wealth. The Rockefellers and Pitcairns are perhaps the best-known, and the first, ultra-wealthy American families to have created Family Offices in the United States. In the 21st century, we find Family Offices linked to companies enjoying global success, such as Pontegadea in Spain, owned by the Ortega family who are majority shareholders in the Inditex group. Pontegadea focuses on real estate purchases, but also allocates a part of its funds to the Amancio Ortega Foundation for educational and health care projects. In Silicon Valley in

http://dx.doi.org/10.1016/j.orgdyn.2017.03.002

the US, amongst others we find the Single Family Office, Iconiq Capital, owned by Mark Zuckerberg (Facebook's founder), and the Family Office called Cascade Investments, owned by Bill Gates, the world's wealthiest man.

The FO has been seen to facilitate the transmission of wealth from one generation to another, with great success in the USA and increasing success in Europe and Asia. Although official data are not available, the Family Office Exchange estimates that there are 2500—5000 FOs in the U.S. In Europe there are about 80 SFOs managing assets of about €1b.

Over recent years, there has been a clear trend among Ultra-high-net-worth offices to resort to multiple service providers rather than one individual private banking firm. This suggests that the creation of FOs is not a passing trend but a growing phenomenon, especially if we consider that many Ultra-high-net-worth individuals are members of entrepreneurial families so may well have the profile of possible creators of FOs.

The FO may have its own team of in-house professionals who can perform all the activities needed, or it may outsource some of them. After the recent financial crisis, FOs with a larger proportion of in-house activities were seen to be those that achieve the best performance. In contrast to the argument that the more you outsource to the best experts and the fewer employees you have, the better your performance will be, experience has shown that "the more an SFO (Single Family Office) was controlled directly and the more its members were involved, the better the performance".

In addition, innovations in FO management have turned them into professional organisations, changing the way they work, and stepping up interest into how they are set up and develop. All these matters explain why it is relevant to analyse them, from both practical and theoretical viewpoints.

This study sets out to examine what has been published to date on FOs in high-impact scientific journals. From the articles reviewed, it aims to find out what FOs are, why families set them up, what are the most appropriate structure and governance systems and what theories are applied. It then identifies gaps and establishes future lines of research on FOs. To achieve these aims, we searched for articles that included the term "Family Office" in journals that have published research on Family Business, expanding the search by using the Social Sciences Citation Index (Web of Science). We then performed a systematic content analysis in order to outline a possible agenda for research in this field.

The article is structured as follows. After this introduction, we consider FOs as a concept, how they can be classified and their theoretical background. We then pose some key questions relating to the activities and functioning of FOs.

FAMILY OFFICE: CONCEPT, CLASSIFICATION AND THEORETICAL BACKGROUND

The governance of a Family Firm is linked to the family that owns it, which may decide to create a separate structure for activities apart from those of the Family Firm, depending on its mission and vision.

The research on Family Firms covers a number of topics: succession, governance, organisation theory, Small and Medium enterprises, ownership and human resources.

Traditionally, research on FOs has fallen within the category of governance (as a tool for managing a family's wealth) or that of finance (as a tool for managing investments). There is a clear link between the Family Firm and the family, with governance through a Board of Directors and a Family Council; but there is also a link between the family and the FO, which has its own governance. Confusion may arise when the family decides to create an FO based on a decision taken by the Family Council (the body created for communication between the family and the Family Firm). Therefore, before establishing the different meanings of the term FO, it is necessary to first explain why there are conceptual differences between FOs and Family Firm governance. Table 1 illustrates these differences, based on the three-circle family business system.

When a Family Firm grows and professionalizes its management, family management is usually separated from business management by creating a Family Council. The latter is responsible for managing the family's net wealth and its continuation at the head of the business, and should maintain fluid communication with the Board of Directors that professionally manages the firm. Through the Family Council, the family may decide to manage its assets through an FO. Such a structure, which is often led by the Family Council, may have its own Board of Directors, thus also having professional management.

Having established this distinction, the next step is to consider the types of structure that offer professional family services, with many levels of governance and agency costs. The first is the Single Family Office (SFO). An SFO guarantees individuality and complete confidentiality in the running of the family business. Second is the Multi-Family Office, which serves more than one family and in which each family knows with which other families it is sharing the services. Since a single entity manages the assets of several families, management costs are lower. This may be useful for families that do not have extensive resources. The third possibility is an Affiliated Multi-Family Office in which FOs are managed by banks or other financial entities.

We focus here exclusively on the first and simplest of these structures, the Single Family Office. Table 2 summarizes the different approaches adopted to the SFO.

CONCEPT

An SFO is a private firm, whose capital comes from a high net wealth family. It exists to meet the family's personal and financial needs.

Private banks working as FOs have existed in Europe for over 500 years, but it was only in the 19th century that this type of structure started to be adopted in the USA. In addition to the basic task of maintaining the family's assets, over the last two decades, FOs have also played an essential role in increasing and passing on wealth from one generation to the next.

When a Family Firm grows, the person in charge faces a dual challenge: (1) managing the family business, and (2) managing the services to the family and the wealth it has