

# NAVIGATING THE COMPLEXITIES OF MODERN FAMILY OFFICES

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We live in a world where the term “Family Office” connotes everything from a virtual entity to a function within an operating business to a traditional brick-and-mortar, professional family office. That makes it more important than ever for advisors to understand each family’s unique background and circumstances—and how they arrived at their current juncture. A 2023 survey of our UHNW and Family Office clients found that virtually all (97%) respondents expected their advisor to deliver hyper-responsive, personalized service while recognizing when to involve subject matter experts. In other words, going “above and beyond” to serve a family’s complex needs has become a widespread expectation. But what does this mean in practice?

At Bernstein Private Wealth Management, we define a family office as “an entity driven by a common purpose that binds a family together across generations.” What better example than a family business? A business has a purpose, reflects the values of the founder and/or the current leadership, and operates with a set of governing principles leadership has established. Given the majority of family offices begin with an operating business, we will consider two sub-categories: those with a current operating business and those who are post-exit.

## Serving Those with a Current Business

When running a family office alongside an operating business, three common concerns tend to arise:

- i) Balancing liquidity needs for both the business and the family
- ii) Weighing investment risk for both
- iii) Navigating succession planning

Let’s address each in turn. First, understanding the potential interplay between family liquidity needs and business decisions is incredibly important. Using

analytical tools to clearly demonstrate the benefits or challenges of investing more in the business versus allocating to the shared lifestyle pool can help families better envision their future. Gauging investment risk involves a similar trade-off. Families often under-allocate to risk assets like equities and private assets as they perceive their business to be their primary risk. This tends to mute family assets’ growth potential—and, in turn, limits the family’s liquidity in the future.

For family principals who serve as both business owners and family leaders, succession planning remains a key concern. The family’s future depends heavily on leadership clearly defining their intentions for the business—whether that includes ongoing operation or a sale—and communicating that vision to the broader family.

Once a path is chosen, the family must determine who will participate in the business, the family office, or both. In our 2023 survey, we found succession planning to be at the top of all participants’ minds. As a result, it’s essential to focus families on their ‘why’: What is their North star? What are they trying to accomplish? By engaging in a reflective process, the family can lay out a road map for success for both the operating business and the family office.

## Post-Exit Considerations

There may not be a more harrowing personal or professional experience for a business owner than selling their business. Here, again, it’s crucial to explore the underlying rationale driving the sale. As in retirement, it’s not about running from a job but to another chapter. But, a business owner should only sell if they have a clear understanding of their way and a well-thought-out plan for what comes next. Many owners turn the page and create a family office.

And those post-operating company family offices face some similar concerns:

- i. What are the family’s priorities, and how will they differ post-sale?
- ii. How should the family define their time horizon?
- iii. How does the family make collaborative decisions, communicate, and plan for generational succession without the business’s governance structure?

When a family is running a business, their purpose is well-defined. Without that shared mission, the deck is cleared—but the ship may founder. To right it, the family must first align on what matters most: how do they prioritize philanthropy, preserving wealth, or supporting family members launching businesses themselves?

Can the family office align their investments with the family’s interests and values? These priorities must be clearly articulated. They can serve as the foundation for key documents such as a family mission statement, family constitution, investment policy statement, and investment guidelines.

Without a business as a going concern, post-sale family offices often struggle to determine their time horizon. Are they forming an entity that will support future generations, including great-grandchildren who have yet to be born? Or should they aim to unite two to three generations for a charitable purpose? While flexibility is key, defining a time horizon at the outset can help families split their “endowment” versus “operating” funds. After tackling priorities, purpose, and perpetuity (or not), the family can address pressing governance tasks:

- Drafting proper policies.
- Holding in-depth discussions on committee functions and leadership roles.
- Establishing benchmarks for succession

planning—including the role of non-family members within the office structure.

A desire to align investment strategies with the family’s values and interests is common among both family office archetypes. This alignment is often reflected in family investment guidelines, which should be flexible enough to capitalize on opportunities while establishing a clear framework for investment. To facilitate inclusive discussions, have a clear understanding of the family’s core values, which should be defined prior to establishing guidelines. Additionally, guidelines should consider the family’s domain expertise and their desire to leverage that knowledge in future investments. While guidelines should be revisited periodically, the family office should establish the framework at the outset.

## Uniting Generations and Achieving Success

Family offices have evolved from being solely investment vehicles to becoming a unifying force that binds families across generations. Whether established within an operating business or after its sale, a family office must reflect the unique values, goals, and complexities of each family. There is no one-size-fits-all solution, but there are shared questions and common themes that must be addressed for the family to achieve success. By doing so, families can establish a family office that serves as a centering force and helps to achieve the long-term goals of both the family and the business.

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