



THE NEXT GENERATION OF FAMILY OFFICE LEADERSHIP

Many family offices are reaching a critical point of leadership turnover, presenting tough questions about succession and governance. Others, newly established, are thinking carefully about the right organizational model. At Spencer Stuart, we have conducted numerous searches for family office leaders over the years, including searches for CEOs, CIOs, COOs and CFOs, and we have witnessed how the landscape for family offices has changed, and how their leadership needs have evolved along with it. We recently met with some leading authorities in the industry to discuss the changes and challenges family offices face, their diverse talent needs and the leadership qualities most in demand. We spoke with:

Charlotte Beyer, founder of the Institute for Private Investors

Kathryn McCarthy, family office adviser and director of the Rockefeller Trust Company

Sam Minzberg, partner with Davies Ward Phillips & Vineberg LLP and family office adviser

Gay Mitchell, deputy chairman of RBC Wealth Management and vice chair of Royal Trust Corporation

Branching out from the family tree

As time has progressed, the needs of family offices have become more and more complex. Each family office has a diversity of needs — from investments and philanthropy to taxes and next-generational planning — and a uniqueness within that diversity of needs. This means that the recruitment of the right leadership talent is extremely important, but also extremely challenging.

Going forward, family offices may need leaders with different skill-sets and backgrounds than those of existing family office leaders. Yet, some struggle with the assessment of potential candidates' leadership abilities. "If you look at the average family office, which is an oxymoron, leadership in and of itself is not well-defined or understood," said Kathryn McCarthy, a leading New York-based family office consultant and a director of the Rockefeller Trust Company. "And that's a big deal because that affects the recruitment process enormously."

Some executives are leery of joining family offices

because they can be perceived as being more prone to uncertainty. There is often a concern that the family may change its mind about the office structure or a family rift may dramatically change the activities or environment of the office. As a result, families must demonstrate a clear commitment to the office's stability and structure to potential candidates for leadership positions.

Additionally, industry leaders have noticed a misconception among some families that simply working in a family office setting should justify lower compensation despite their high expectations of performance; the level of compensation offered by some family offices is often not enough to lure the best talent away from their current roles. "Some families want to get the best talent for the least amount of money and it doesn't work that way," said McCarthy. "I think a lot of people who do accept lower compensation are just traveling through. They are just looking for a place, consciously or subconsciously, to regroup and then they move on."

"If you look at the average family office, which is an oxymoron, leadership in and of itself is not well-defined or understood."

Coveted traits

Our conversations with industry leaders echoed the findings of our own extensive work with family offices: Cultural fit is one of the most, if not the most, critical qualities in a candidate. Working

successfully at the intersection of business and personal can be a challenge, so it is vital that the executive can build and maintain a close working relationship with the family.

“Now families are looking for leaders with more of a business mentality — they need someone who can run the family office like a business because there are a lot of dollars flowing out.”

“Family offices want someone who thinks like a family member, is as loyal as the best family member and whom they can trust to have the same values and ethics as the family, and some of them do succeed at finding that kind of person,” said Charlotte Beyer, founder of the Institute for Private Investors. “But I think that is a very tough assignment because you’ve got to figure out and even define just what those values are.”

Although cultural fit has long been a criterion, other qualities have emerged as increasingly important. For example, offices once sought leaders with specific technical skills such as accounting or investing experience. Today, family offices are taking a more holistic approach to the top leadership position, looking for a combination of broader business acumen with soft skills, e.g., communication, talent development and emotional intelligence. These soft skills are crucial in helping the hired executive more successfully partner with (rather than defer to) the family and challenge ideas.

“Fifteen years ago, the role of the family office CEO was more skill-set driven,” said McCarthy. “Now families are looking for leaders with more of a business mentality — they need someone who can run the family office like a business because there are a lot of dollars flowing out.”

The economic environment has also sparked changes in sought-after skills. The financial crisis has made many families much more risk averse, which has been reflected in their investment strategies. Since 2008, a growing number of family offices have been interested in hiring CEOs or CIOs with successful histories in direct investing or allocation management. Greater emphasis has also been placed on global investment experience, as some family offices are now planning how to organize their investments at home and abroad. Enhanced focus on risk has pushed some families to seek independent directors and leaders who can contribute to the decision-making and governance of the office, according to Sam Minzberg, partner with Davies Ward Phillips & Vineberg LLP.

With a premium on transparency, the outsourcing of functions and the employment of external consultants also requires that the family office leader is able to enact and monitor governance and oversight of all parties. “Even if you hire or outsource the CIO, the tax preparation, the philanthropy and other functions, you will still want someone to be the quarterback and you want them on your team,” said Beyer. “You don’t want a firm that has 75 quarterbacks working for 7,500 other families.”

Leadership succession

Often the family office is not only a means to manage wealth, but also a way to preserve family cohesion across generations. Many family offices are at a crossroads when it comes to determining how the family will achieve its multifaceted goals, including family unity, in the years ahead. Succession has become even more pressing today — offices around the world are currently (or about to be) confronted with the issue of succession as many of their leaders approach retirement age.

Succession is a significant challenge for most organizations, but can be especially emotional for families who are uncomfortable accepting that long-standing leaders may retire or pass away, or for those who must navigate complex family dynamics to reach a consensus. Family offices must find the right external people who can balance operational excellence with the unique relationship savvy required by family offices.

Managing transitions

Changes in leadership can create trying times for family offices. In her work, Gay Mitchell, deputy chairman of RBC Wealth Management and vice chair of Royal Trust Corporation, has found the longer the transition, the longer the list of skills desired in a leader. “Families who take a long-term view of transitions tend to want someone who has almost every skill,” said Mitchell. “Families working in shorter time frames tend to look for specific experts. The history of the family’s transitions and time frames often defines the future direction of the office.”

Grooming internal successors can help families better manage the transition of leadership and preserve the family’s legacy, while at the same time providing continuity for the younger generation. Yet, this practice also reveals a delicate issue: Current family office leaders often are hesitant to prepare the next generation of talent because they are uncomfortable having people “nipping at their heels,” noted Minzberg.

The transitions of outgoing current leaders can be made smoother by using them in an advisory

capacity rather than removing them completely. “I suspect a lot of families wait until the last minute until Joe is 72 and somebody in the next generation says, ‘Why do we still have Joe? Can we afford him anymore?’” said McCarthy. “What I try to do is not let it get that far. I try to start the family thinking about where else Joe can be effective — on the board or within other entities in the family. Use Joe’s intellectual capital in a different way.”

Whether transitioning in a replacement leader or a new leader, integration can help pave the way for future success. McCarthy advised that the family and the leader share an open dialogue, including a willingness to listen to the next generation. Mitchell suggested the new leader have an onboarding plan, which would include things such as attending board meetings of the family office and the operating company, and also pursuing coaching from someone who understands the family well. She also noted that a period of overlap between the incoming and outgoing leaders allows for an important transfer of institutional knowledge.

Finding the right leader

Communication among the family is integral in finding a leader who will fit its needs and, ultimately, help preserve and grow its wealth. Some suggested best practices for finding and attracting family office leaders include:

- > Assess and prioritize your needs. Engage the relevant family members to reflect on what truly is needed. If it is a de novo office, what are you looking to build? If it is an existing office, where are the gaps in talent? Determine which functions must be performed in-house and which can be outsourced.
- > Write job descriptions for key roles in the family office. This task may seem obvious, but it is an important exercise in zeroing in on desired skills — and one many families skip. If certain soft skills cannot be found in a single candidate, Minzberg advised establishing a family advisory committee who can bring some of the missing elements to the table.
- > Set family office goals for the next several years. Beyer recommended writing the family meeting executive summary for five years in the future to ensure the family has tangible, long-term milestones in mind.
- > Decide how leaders' performance will be measured and how it will be aligned with compensation.
- > Consider using external advisers for an independent perspective and assessment of talent gaps and potential candidates.

Future state

Going forward, we expect the number of family offices to grow as more people demand customization, transparency and greater financial control. We also expect to continue to see more family offices in growth markets such as Asia and Latin America. The proven underpinnings of family office success — strong recruitment

practices, succession planning, transition skills and cultural fit — will remain integral regardless of location. The advent of more family offices will make the landscape more competitive for finding strong leaders. Thus, it is vital to have a clear picture of what skills are needed not only today, but also for the future of the family office.

ABOUT THE AUTHORS

Sarah Burley Reid (New York) co-leads Spencer Stuart's global Private Wealth Management Practice. As a member of the firm's Financial Services Practice, she conducts searches for general managers and investment professionals across the wealth and asset management industry. She can be reached at 212.336.0200 or sburleyreid@spencerstuart.com.

Tanya van Biesen (Toronto) is a member of Spencer Stuart's Financial Services Practice and co-leads the firm's efforts in the financial services industry in Canada. She can be reached at 416.361.0311 or tvanbiesen@spencerstuart.com.

Connie McCann (Philadelphia) is a member of Spencer Stuart's Financial Services Practice, where she conducts searches for CEOs, board members and senior executives in banking, asset and wealth management, private equity investment and key functional roles across these and other industries. She can be reached at 215.814.1600 or cmccann@spencerstuart.com.

ABOUT SPENCER STUART

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 54 offices in 29 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments.

PRIVATE WEALTH MANAGEMENT PRACTICE

Spencer Stuart's specialty wealth management practice serves leading organizations across the industry — from large, global firms to regional boutique wealth managers and single family offices. The practice has developed a particular specialty in serving the needs of families establishing new family offices as well as families planning for leadership succession. Our global team of executive search consultants works with families in a confidential, advisory capacity to help them identify and recruit top talent that suits their unique set of needs.

Amsterdam
Atlanta
Barcelona
Beijing
Bogota
Boston
Brussels
Budapest
Buenos Aires
Calgary
Chicago
Copenhagen
Dallas
Dubai
Frankfurt
Geneva
Hong Kong
Houston
Istanbul
Johannesburg
London
Los Angeles
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis/St. Paul
Montreal
Mumbai
Munich
New Delhi
New York
Orange County
Paris
Philadelphia
Prague
Rome
San Francisco
Santiago
Sao Paulo
Seattle
Shanghai
Silicon Valley
Singapore
Stamford
Stockholm
Sydney
Tokyo
Toronto
Vienna
Warsaw
Washington, D.C.
Zurich

Stay Connected to Spencer Stuart

    @SpencerStuView