

## Mastering Talent Management in Family Offices: Some Insights from Research and Practice

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In the intricate world of family offices, where wealth management meets legacy preservation, the recruitment and nurturing of talent are paramount. The right blend of skills, experiences, and competences is essential for the smooth functioning of these highly personalized organizations which are dedicated affluent families with the mandate of managing their human, social and financial capital, as well as other affairs in the family enterprise ecosystem, with the objective of continuing the family heritage for the generations to come (Vogel & Marconi, 2023). In this article we explore the multifaceted realm of talent management within family offices, offering actionable insights on roles, skills, experiences and competencies as well as their compensation structures.

### Roles, skills, experiences and competences:

Our research and advisory activities reveal that family offices require a diverse array of roles to efficiently manage multifaceted operations. From the Principal who sets the tone and direction to specialized executives like the Chief Investment Officer (CIO) and Chief Financial Officer (CFO), each role plays a crucial part in achieving the family's objectives. While some functions may overlap or be combined, clarity in defining responsibilities ensures smooth operations. Table 1 provides an overview of some of the most common roles in family offices.

| Role                                        | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| Principal                                   | The principal's role is pivotal as they own and dictate decision-making. They can be hands-on or hands-off, taking on titles like President/CEO or sit on the board or investment committee. Their clarity about family office goals is crucial, shaping the environment and staff responsibilities. If they're less involved, financial reporting and monitoring gains importance, and investment executives carry more responsibility.                                                                                                                                                                                                                        |
| President / CEO / Head of the Family Office | The President/CEO of a family office holds the highest position, directing overall strategy and answering to a diverse board (or investment committee) including family owners and wealth experts. Balancing short-term goals with long-term family objectives, they act as the family's main representative. Often, especially in the early phase of a family office, a family member takes on this role, leveraging their influence to engage the family. The ideal candidate is a skilled change agent with expertise in management, finance, and communication, capable of ensuring continuity while driving necessary adaptations for the office's growth. |
| Chief Investment Officer (CIO)              | The CIO crafts and implements investment strategies aligned with the family's goals, overseeing portfolios of private and public equities, staying informed on market trends, and managing risk. They communicate investment performance, maintain external relationships, and advise the family based on established policies. The CIO leads a team of specialists such as investment managers or analysts to execute strategies effectively.                                                                                                                                                                                                                  |
| Chief Financial Officer (CFO)               | The CFO supervises the financial operations of the family office, ensuring compliance with regulations and reporting standards. They develop financial policies, manage tax, insurance, budgeting, and treasury functions to achieve                                                                                                                                                                                                                                                                                                                                                                                                                            |

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|                                | short- and long-term goals. Additionally, the CFO handles personal tax matters for family members, collaborates with legal and investment teams, and communicates essential financial information to stakeholders. They may also evaluate business and real estate opportunities and manage risks for the family.                                                  |
| Chief Operations Officer (COO) | The COO supervises daily operations, ensuring legal compliance and implementing strategies. They manage staff, handle IT, security, and operational functions, and focus on data management and risk mitigation. Collaborating closely with other executives and family members, the COO ensures the family office meets client and stakeholder needs effectively. |

*Table 1: Main roles in a family office (adopted from Vogel & Marconi (2023)).*

Family involvement, especially in leadership roles, can infuse operations with a sense of tradition and familial ethos, and it is worth noting that family involvement in a family office spans across a spectrum, ranging from hands-on operational roles to oversight and governance functions. Clear policies delineating roles, qualifications, and expectations help mitigate conflicts and ensure alignment with family office objectives. While family members bring inherent understanding and alignment with family values, balancing familial relationships with professional responsibilities is essential for maintaining harmony and effectiveness.

Given the variety and complexity of the various roles needed for the successful functioning of a family office, it is crucial to understand the appropriate set of skills and capabilities to have when establishing a family office.

Family officers require a blend of technical expertise in finance, law, and accounting, along with soft skills like trustworthiness, integrity, and discretion. This combination ensures success, as each staff member undertakes diverse responsibilities such as investment management and family event organization, necessitating a wide range of skills. Additionally, they must navigate complex family dynamics, requiring emotional intelligence, humility, and adaptability. Successful officers build rapport with family members and align with their values, making family fit a crucial aspect of recruitment. Table 2 summarizes the essential skills and competencies in more detail.

| <b>Skill &amp; experience</b>                    | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| Financial skills                                 | Family officers should possess a diverse skill set crucial for managing the financial affairs of affluent families. They excel in financial planning, crafting customized plans that align with the family's unique objectives. Expertise in investment management allows them to navigate complex portfolios, considering risk tolerance and long-term goals. Understanding the intricacies of estate planning, they ensure smooth wealth transfer between generations while minimizing tax implications. Moreover, their adeptness in risk management enables them to identify and mitigate financial risks, safeguarding family wealth from market fluctuations and unexpected circumstances. |
| Prior family business / family office experience | Family officers must possess a versatile skill set to navigate the complexities of family businesses, excelling in succession planning and conflict resolution to ensure smooth transitions and foster harmony. Understanding governance structures is crucial for transparent decision-making. While experience in family                                                                                                                                                                                                                                                                                                                                                                       |

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|                                         | businesses or offices in general is valuable, direct engagement with the respective family they work with is paramount. Positions within a family office should prioritize professional merit over familial connections.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Stewardship                             | Family officers must embrace a stewardship mindset to effectively manage and safeguard family assets for the long haul. While a fiduciary mindset adheres to legal and ethical duties, stewardship extends beyond, considering impacts on future generations and society. By prioritizing both financial growth and social responsibility in investment decisions, family officers can uphold the family's interests while positively impacting the community. This approach builds trust, accountability, and ensures the enduring success of the family enterprise.                                                                                                                                                                             |
| Emotional intelligence (EQ) and empathy | Family officers in both small and large family offices need high EQ to navigate the emotionally charged environment. In smaller offices, decisions often hinge on the day's emotional dynamics, requiring officers to manage family tensions even during technical financial discussions. Formal training in family systems helps them understand and address complex family dynamics. While larger offices may have structured teams, smaller ones rely heavily on individuals with strong EQ due to the absence of established rules. Higher levels of empathy will also help family officers understand and share the feelings of family members, fostering a strong relationship, and demonstrating a genuine commitment to their well-being. |
| Trustworthiness and strong ethics       | The success of family office executives hinges on their trustworthiness, as distrust can lead to wasted time and the need for replacements. When recruiting, prioritizing candidates with both competence and moral integrity is essential, along with shared values that align with those of the family. Discretion and loyalty are crucial traits, given executives' availability for assistance at any time. Upholding high ethical standards and transparent communication, especially regarding financial matters and potential conflicts of interest, is vital.                                                                                                                                                                             |
| Humility and respect                    | Demonstrating humility and respect is crucial for family officers. It enables them to operate without ego and accept family decisions, fostering trust and positive relationships. By honoring the family's values and objectives, officers can effectively support them in achieving their goals.                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Hard-working diplomatic rebel           | Effective family officers embody the traits of a "diplomatic rebel," blending humility with readiness for rigorous desk work. Given that family office heads often stem from entrepreneurial backgrounds, officers must navigate their alpha personalities and constant stream of ideas. They need resilience and courage to offer candid advice in a setting lacking corporate checks and balances. Succession planning is crucial, demanding independence yet respect towards the principal. By striking this balance, family officers can ensure both the principal's desires and overall success are met.                                                                                                                                     |
| Mental agility and adaptability         | Flexibility and adaptability in responding to changes in market conditions, regulation, technology, and family dynamics, ensuring the ability to effectively navigate the evolving landscape.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

*Table 2: Family Officer skills and capabilities (adapted from Vogel & Marconi (2023) and De Massis & Rondi (2024, forthcoming)).*

Now that we have seen the different key roles that exist in a family office as well as the core skills and capabilities of family officers, we will focus on a key aspect when it comes to attracting and retaining talents for the family office: compensation structures.

**Compensation structures:**

Compensating family office executives requires a nuanced approach that balances market competitiveness with the family's long-term objectives. While base salaries should align with industry standards, incentive structures play a pivotal role in aligning executives' interests with the family's goals. Annual incentive plans, discretionary bonuses, and non-cash benefits offer avenues for recognition and reward tied to performance. Long-term incentive (LTI) plans, such as equity participation and deferred compensation, further cement executive commitment and alignment with the family's long-term vision. Table 3 details the key components that should be taken into account when designing the compensation package to attract and retain talent in a family office.

| Type of compensation           | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| Base salary                    | Base salaries for family office executives should align with industry standards to attract top talent from fields like finance, advisory, legal, or tax. Some family offices may offer slightly higher salaries to offset limited career advancement opportunities. However, instead of solely relying on inflated base salaries, exploring alternative incentive structures like long-term incentive plans can provide additional motivation, which traditional industry players may not offer (see below).                                                                 |
| Annual incentive plan          | An annual incentive plan is a structured compensation arrangement established at the start of the year, where the principal and executive set specific objectives. This plan may include financial and non-financial performance metrics, aiming to align with the family's strategic vision across diverse goals.                                                                                                                                                                                                                                                           |
| Discretionary bonus            | A discretionary bonus is a bonus that is not tied to a specific formula or performance metrics but rather decided by the principal or board of directors. Factors considered include individual performance, contribution to the organization's success, and overall economic performance. Typically granted at the end of the year, this bonus is not guaranteed.                                                                                                                                                                                                           |
| Non-cash benefits              | Non-cash benefits play a crucial role in enticing, inspiring, and retaining talent. Offering comprehensive packages with perks such as pensions, medical coverage, and company vehicles, coupled with a favorable work-life balance, holds great appeal for employees. Furthermore, some may find the opportunity to work in a non-traditional corporate setting and establish loyalty to family owners they resonate with.                                                                                                                                                  |
| Long-term incentive (LTI) plan | Family offices are turning to long-term incentive (LTI) plans and deferred compensation models to incentivize executives. These strategies provide equity or ownership stakes in the office or its investments, motivating and retaining top talent. Participation models enable executives to share in long-term growth and value creation, aligning their interests with the family's and encouraging long-term commitment. Compensation may be deferred with a vesting period spanning several years, ensuring sustained alignment between employee and family interests. |

*Table 3: Key components of a compensation package for family officers (adapted from Vogel & Marconi (2023)).*

Long-term incentive (LTI) plans in family offices are diverse, aiming to foster executives' long-term commitment and alignment with the family's objectives. Equity-based plans grant executives ownership or equity interests in the family office or its operating businesses, leveraging stock options, restricted stock units (RSUs), or phantom stock arrangements. Carried interest or phantom carry plans, commonly utilized in private equity and hedge fund industries, offer executives a share of profits from investments, encouraging prudent decision-making and long-term value creation. Deferred compensation plans, tied to performance metrics and long-term goals, align executive interests with those of the family, fostering risk management and interest alignment. Co-investment opportunities allow executives to invest alongside the family, providing access to exclusive deals while necessitating careful consideration of potential conflicts of interest. Aligning LTIs with the risk associated with investments is crucial, ensuring prudent decision-making and long-term wealth preservation. Collaboration with independent partners can facilitate the careful design and implementation of LTI structures, balancing risk and reward for optimal outcomes.

While we have shared some insights into the skills, competences, experiences, and compensation structures that are strongly needed and frequently missed in a well-functioning family office, our research underlines that family offices are heterogeneous and can vary in the degree of maturity of family governance, professionalization, entrepreneurial orientation and stewardship orientation (De Massis et al., 2023). This means that their skills, competences, experiences, and compensation structures should be adapted depending on the type of family office that a family is aiming to establish.

### **Conclusion:**

Talent management in family offices is a dynamic and multifaceted endeavor that demands careful navigation of familial dynamics, market realities, and long-term objectives. One of the most common mistake is assuming that only financial competences are needed. By defining clear roles, identifying key skills, competencies and experiences, and structuring appropriate compensation packages family offices can cultivate a cohesive and high-performing team capable of stewarding wealth across generations. With a strategic approach to talent management, family offices can navigate the complexities of wealth management with confidence, ensuring the preservation and growth of the financial, socioemotional and human capital of entrepreneurial families for generations to come.

### **References:**

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