Enterprise-Level Operations for a Family Office

Moving beyond the old adage of perpetual uniqueness

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Introduction

Absconding from old adage & uniqueness

The theme of this paper is that best practice business processes and workflows for the family office are essential factors in maximizing efficiency, minimizing risk and positively impacting ongoing staffing challenges. However, clinging to old ideas has hindered family offices' adoption of modern capabilities.

To succeed, any organization needs to develop, maintain, and adhere to well-defined business processes and workflows. Robust, established processes ensure efficiency and employee productivity, reduce risks, and improve outcomes. For family offices, which manage the complex financial and business affairs of ultra-high-net-worth families, best practice business processes are paramount yet under-utilized. A key cause of this is the belief that each office is unique, which often hinders family offices from adopting proven industry best practices.

No family office works without some level of business rules, processes, and workflows. Unfortunately, applying those practices within the office is frequently far from perfect. All family offices want and need best practices. However, finding the time to define and effectively implement them can waylay the best of intentions. Many offices have policies and procedures manuals, but the pressure of day-to-day work often means these manuals are referred to only sporadically and too often only after a problem arises.

Policies and procedures create order, transparency, and accountability—the foundation of best practice business processes. They codify what is important to the family and how the office efficiently achieves its goals. However, their value can only be realized through day-to-day usage and rigor. So how does a family office successfully implement best practices across the organization?

The office needs a strategy. It needs to look at how it operates as an ecosystem and how it can take advantage of modern technology that provides embedded best practices—it needs to work smarter, not harder. Despite the uniqueness of every family office, there are many areas to incorporate universal truths where industry-standard workflows and best practices can be leveraged. This modernized perspective resists the old adage "if you've seen one family office, you've seen one family office." It enables the office to move from the burdensome practice of customizing everything to harnessing the power of industry best practices to foster change in the organization. The office can thus go beyond siloed functions, like accounting, and instead transform itself to maximize efficiency, minimize risk, and make life better for staff across the entire enterprise—embarking on the journey to The Family Office of the Future.

Family Office Policies & Procedures

## *Operations grounded in systems and workflows*

A fundamental requirement for a sound office management system is the documentation of the policies and procedures used to establish and maintain internal controls and reporting. The system needs to document all the policies and procedures required to comply with accounting and regulatory standards and meet the operating requirements of the family. This includes any governance policies the family has chosen to adopt. For a family office, following well-defined best practices is essential to meeting its fiduciary responsibilities.

Policies and procedures should ensure that institutional memory is preserved and protected against personnel changes and serve as a model for how the office works. They should clarify roles and responsibilities and ensure accurate data is always used for decision-making. They are also helpful as a training tool for new and existing employees, providing guidelines to support daily operations and processes. They ensure:

- Consistency, efficiency, and effectiveness
- Segregation of duties
- Authorization and training
- Reviews and approvals
- Safeguarding of data

Proactive Audit and Compliance

Segregation of Duties — Workflows — Approvals — Threshold
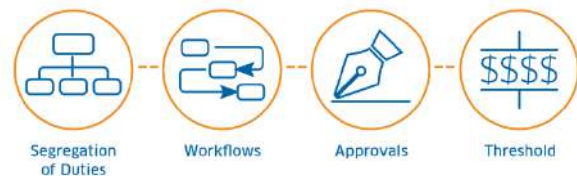
Consistency, efficiency & effectiveness

Consistent performance increases reliability and allows the office to work effectively. Efficient procedures meet those objectives in a timely fashion while using minimal resources. Best practices can eliminate duplicative efforts, streamline processes, and increase productivity.

They promote uniformity in executing and recording transactions and serve as employee training tools. They reduce processing errors, inconsistent practices, inaccuracies, and unreliable data when used effectively.

While accuracy is essential, timeliness is also key to achieving efficiency. Employees should be able to analyze their workflows and identify ways to work smarter and save time. Timely processing makes the work and staff more efficient.

Then there is the system of checks and balances that can be embedded to assist in the complete and accurate recording of transactions within a system of internal control. This system assures that recorded information is correct and complete.

Segregation of duties

Segregation of duties is a primary concept in a system of best practice internal control. Duties within a department should be segregated so that one person does not perform processing from the beginning to the end of a process. One person should not authorize a transaction, execute the transaction, record the transaction, and provide the sole review. Reconciliations should be performed by a person independent of the primary process. Segregation of duties reduces the risks of inaccurate reporting and fraud.

Authorization & training

To accomplish accurate posting of transactions, employees should be properly trained and authorized to perform particular functions. Proper training should include understanding the essential need for timeliness in processing transactions. Errors and omissions should also be identified and corrected on a timely basis.

Review & approval

When a process is performed within a department, there should always be another level of review and approval performed by a knowledgeable individual independent of the process. The reviewer should be able to identify errors and omissions. The approval should be documented with an audit trail to verify that a review has been completed. Review and approval help reduce uncorrected errors, irregularities, and inaccurate or incomplete information.

Business rationale of policies & procedures

1. Identify your risks and weaknesses
2. Know your checks and balances
3. Monitor for inconsistencies
4. Rest easy

03

The Business Process Model for the Family Office Ecosystem

Standardizing uniqueness

The family office process model is more complex than those found in many other businesses. It needs to reflect a broad spectrum of processes and workflows with a clear understanding of the underlying relationships between those processes. A family's financial and business affairs typically involve a complex web of interdependencies with numerous multi-entity and multi-generational family structures and far-flung assets, liabilities, accounts, LLCs, partnerships, and other legal entities. Designing a successful process map needs to take those interdependencies into account.

Unique business questions that drive family office processes

Typical relationship issues impacting family office processes globally:

- How does the family view itself and its divisions and entities?

- What is the family culture?

- Who is responsible for the overall coordination of the family relationship?

- What are the common goals and strategies shared by family members?

- How does the family view information sharing and education?

*Typical Entity/Account Issues:*

- Who is legally responsible at a particular point, or for a specific entity, to make decisions, execute transactions, receive data, receive income or principal?

- Who are the beneficial owners of various assets? (Principal and income, future interests)

- What is the tax status of the entity? (Income tax, estate and gift tax)

- What is the nature of the assets owned by each entity? (Either directly or indirectly, through other entities, asset allocation and diversification, currency exposure, liquidity and volatility profile, asset type)

- How are the assets performing? *(Investment performance, cash flow, tax reporting)*

- Where are the assets held? (Custodian, counterparty risk)

- What compliance tasks must be completed?

Leveraging a family office business process map to standardize historically "unique" workflows

Below is a map of best practice business processes that could take place in a family office. Why is knowing the end-to-end business processes so important?

- Analyze how to help meet strategic challenges

- Know how to enable best practices in the office

- Ensure compliance and risk management

- Promote knowledge transfer and consistent training

- Embed efficiency

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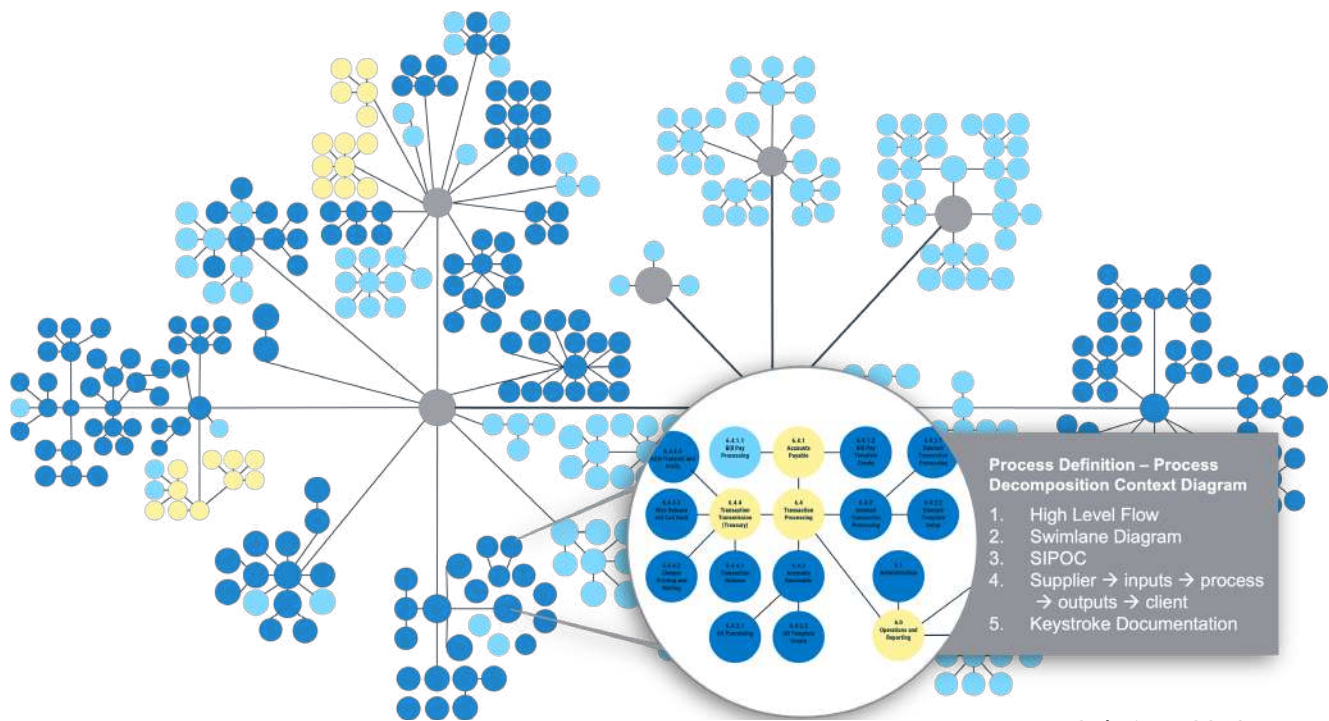
Efficiency significantly impacts costs

Cost efficiency is one of the most impactful reasons a family office must act now to define and improve business processes. Staffing challenges put even more pressure on costs, and the family will demand efficiency. The office must be strategic about how this is accomplished.

Internal costs account for over half of total expenses
Overall cost of operating the family office in 2022

UBS Family Office Report 2022
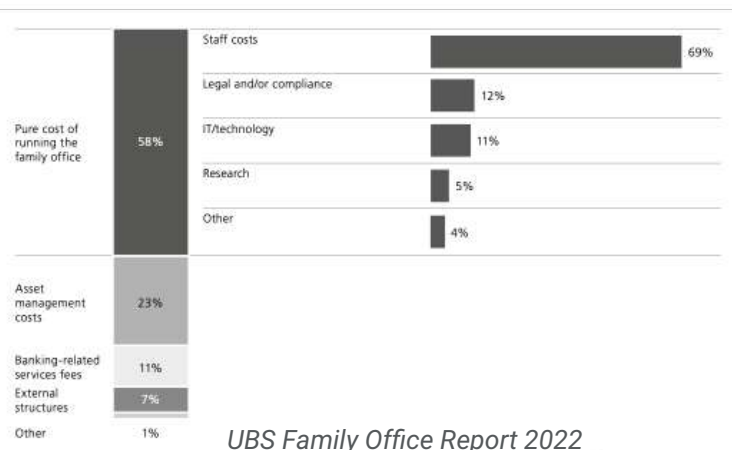
Family Office Staffing and Training

Offloading knowledge from humans to machines

In most family offices, Knowledge Management (KM) is not given the necessary emphasis. Yet it is essential if best practice business rules, processes, and workflows are to impact office management significantly.

A fundamental tenet should be to operationalize knowledge that resides in the office. Family offices are not alone in their inability to fully meet this requirement. Many companies struggle with taking knowledge from the theoretical to the practical. Knowledge in the abstract, or "in someone's head," doesn't help the organization. To consistently benefit from it, knowledge must be taken from the theoretical plane and be operationalized.

A significant aspect of value creation in any business is how well it uses its knowledge and workflows to drive organizational learning, improve the business, and add value.

This approach simultaneously helps to enhance employees' worklife and increases retention. Building, retaining, empowering, and optimizing teams is perhaps one of the biggest challenges facing any organization. Without good people who have the knowledge and tools to excel at their jobs, businesses cannot perform.

In our current labor environment, roiled by the turbulence of the "Great Resignation," the issue has become even more pressing for many organizations. This includes family offices, where people-based services are at the core of the value delivered. In fact, a recent article in Forbes anticipates that 82% of family office professionals will change jobs in 2022. That means in a five-person office, as many as four people could leave—creating uncertainty for the family office and threatening the institutional memory within the office itself.

Family offices face the unique challenge of competing with technology giants and Private Equity firms. Some employees will seek the clear career path and newsworthy projects that come with employment at a global institution, while other professionals prefer the opportunities for creativity and independence available to family office staff.

Family offices need to prioritize the optimization of teams and resources to ensure business continuity and long-term success. The more intelligently they invest in their people and the technologies and training that empower them, the better their productivity, profitability, and service quality.
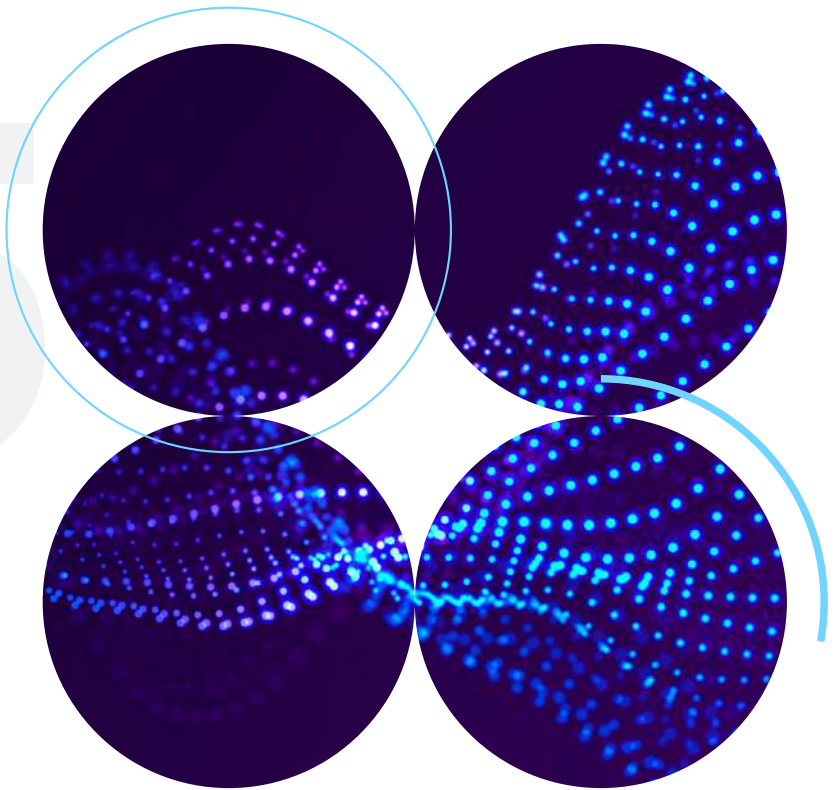
Technology to Enable Enterprise-Level Operations

Breaking away from industry customs and old ideals

An eBook written by Fidelity *a few years* ago called "Evolving the Family Office" addresses the value technology can achieve in powering best practices in business processes and workflows. Here is an excerpt:

"Family offices on the whole may be somewhat behind the curve when it comes to the sophistication of their IT estates, but most now recognize what it means for their future survival — and some are firmly embedding IT innovation into their ethos."

As an example, one New York-based office states that one of its key operational goals is "to do as little work as possible". A flippant remark perhaps, but the point is a serious one: the office is committed to automating processes and re-engineering inefficient systems to ensure they are as lean as possible. Staff are actively encouraged to create and invest in new solutions to increase operational efficiency. And this is not an isolated case: another Chicago-based office is making significant investments in workflow automation to achieve the same outcome.

Transferring human workloads to machines will be key to securing the future sustainability of the family office because it provides more time to tend to the needs of the family.

Family offices have continued to cling to their uniqueness despite these insights. As an industry, family offices are still far behind in adopting workflow automation and operational best practices. Evolution will only be realized by offices shifting their self-identity from distinct organizations to enterprise actors—by relinquishing themselves of old ideals.

Going beyond policies & procedures manuals

To be powerful engines of business value creation and efficiency, an organization's policies and procedures must be implemented continuously and intuitively, not locked in a document that is only rarely referenced or used.

Many surveys show staff does not fully utilize or get daily value from written policies and procedures manuals. For example, one survey asked, "How many of you actually used the policies and procedures manuals after the first 30 days of hire to get meaningful work done?" Only 3% said they did.

Why is that? We've all been taught how valuable documented procedures are in helping an organization capture and implement best practices and process know-how. Nevertheless, very few offices can get their teams to use these document-based systems.

The integration problem

There are two ways that best practice business rules, processes, and workflow can be part of such an integrated technology platform approach.

One approach is to layer a rules/process/workflow engine over an existing software stack. The problem with this approach is that it requires multiple integration points, especially when the underlying software platform itself is made up of numerous integrated databases.

The other, more effective approach is to focus on the solution as a business problem. A technology vendor would start by modeling the best practice business rules, processes, and workflows needed based on decades of business knowledge. Then, the vendor would build a suite of integrated applications required to operate business workflows based on the best practice models. And finally, the vendor would need to establish this on a single database to minimize data entry, eliminate redundancy and duplication, ensure accuracy, and enable multi-dimensional querying and reporting across the entire platform.

Can you buy 'best practice'?

The short answer is yes! It is possible to implement a technology platform that truly integrates best practices across the entire family office and the complex processes it manages. Doing so can be transformative in achieving the family office business and process model of the future. By moving away from unnecessary, tailored workflows and adopting industry-tested best practices, the family office infrastructure can be simplified, and staff is empowered to achieve more.

Family office technology no longer needs to reside in customizations and operational silos. Its potential to impact best practice operations can be exponential when the right integrated platform is used. It then becomes the critical lever to empower staff and operational cohesion, increase the quality of services and outcomes, and add real value to services delivered. The impact of technology can be employed across nearly all operational functions, providing the opportunity to manage family office complexity and costs. What does it look like, and how can family offices rapidly implement a technology that can make a significant impact?

With a modern technology platform built for the family office, you get an integrated, role-based, cross-functional technology solution with built-in business processes that drive workflows. This is supported by a single integrated database and document management system hosted in a secure environment, providing end-to-end transaction processing and reporting on all key activities.

Data silos and best-of-breed solutions are not an effective strategy for family offices.
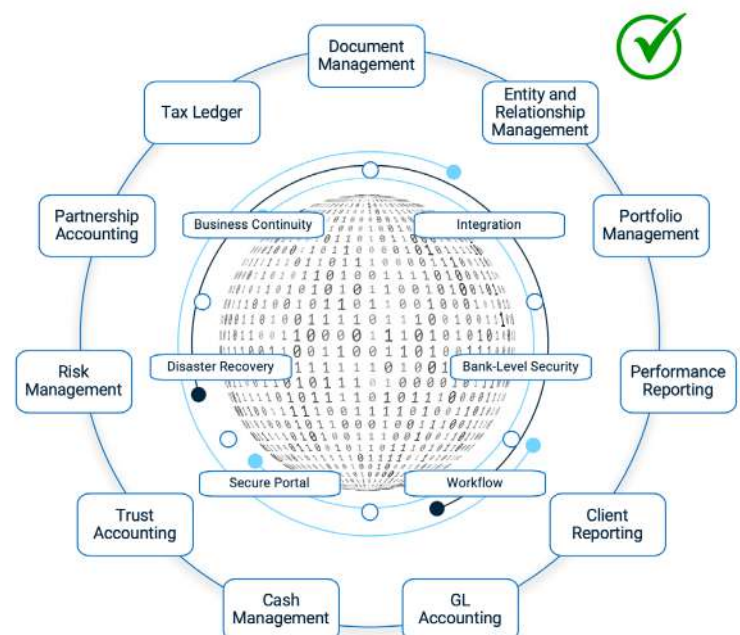
An integrated platform with a single database and embedded best practices propels a family office into the future

Conclusion

Blossoming out of obsolete adage & perpetual uniqueness

In many ways, the family office business was regarded for years as a "cottage industry," and many of the players behaved as though it was. This was a consequence of how many offices grew organically out of a successful operating business. On the other hand, every SEC-registered investment adviser, such as an MFO, must establish and maintain a written policies and procedures manual at the very least.

However, as family offices become increasingly complex, expensive, and riskier operating environments, the operational challenges multiply. In many ways, this is an opportunity for family offices to look at the status quo and think critically about transformation. What typically has been considered support functions can become scalable, agile, and nimble strategic assets that successfully adapt to change.

Moving away from the idea that every family office is unique by implementing best practice business processes and workflows is essential to family office transformation. Historically, it has been difficult for family offices to create and implement best practices in their operations. However, recent technological developments have made it more accessible. It is now possible to buy an integrated technology platform for a family office with built-in best practice business rules, processes, and workflows—the foundation of The Family Office of the Future, which is not a matter of *if* it will arrive, but *when*.

In any business, the operations layer must ensure a firm's ability to efficiently and effectively manage processes, people, and systems that interact to deliver valued outcomes. How an office structures and manages its operations is essential for delivering its value proposition to the family. A properly structured and maintained operational infrastructure, based on best practices, will cater to the client experience in addition to realizing efficiencies and controlling costs.

Workflow processes are at the heart of family office operations, dictating how people and systems interact to serve families best. Well-defined processes that are clearly understood and consistently deployed ensure efficiency, enhance productivity, control expenses, facilitate scalability and reinforce a consistent client experience.

Technology is vital to a firm's operational success, yet only to the extent that the technology allows the office staff to carry out workflow processes consistently and efficiently.

There are unique challenges in doing this in a family office world, but those challenges are not insurmountable. Offices that use operational best practices will achieve efficiency, effectiveness, and better risk management. Of course, the latter is critical in the family office world, as is fiduciary responsibility.
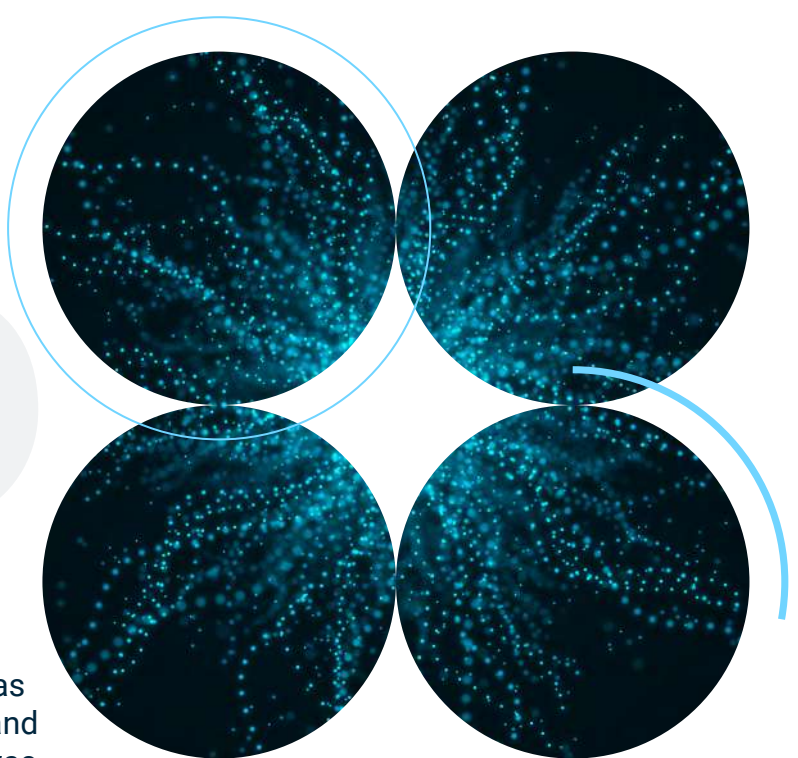
About AtlasFive® from Eton Solutions

A purpose-built, fully integrated ERP system to manage the complexities of family offices, AtlasFive is the only comprehensive technology platform that seamlessly connects all data, services, and stakeholders within a family office. AtlasFive allows single and multi-family offices to adopt lean business practices, eliminate spreadsheets and manual work processes, and accurately report on activities in near real-time. AtlasFive also enables the virtual family office to provide access to data anywhere, anytime, freeing offices to concentrate more time and resources on delivering higher-value advisory services to families.

By harnessing the power of automation, best-in-class cybersecurity, and advanced data governance – coupled with unmatched domain expertise – Eton Solutions guides you through the complex, inevitable progression to the Family Office of the Future. Our platform sets the industry standard for embedded best practices and ensures your office is up-to-date with current guidelines.

Unlike other technology platforms in the marketplace, Eton Solutions built AtlasFive with the sole purpose of solving the challenges family offices face every day. Our founders and leadership team built their careers in family offices. This domain expertise enabled us to map all the functions of a family office and ensure that AtlasFive can be configured to transition you from your existing environment successfully.

As the family office paradigm advances and shifts, we'll help you exceed expectations. With seamless reporting and intelligent insights, you'll maximize productivity and achieve more – leading to deeper and more productive client relationships.

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