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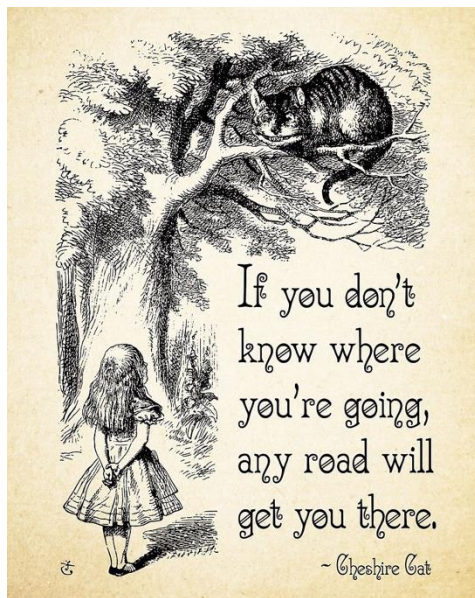
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## Family Office Leadership: Building Your Team

Marc J. Sharpe & Seth Morton

When you think about starting a family office or implementing a leadership change at your existing family office, the people you hire will determine to a large extent in what direction you go, and how successful you are. Of course, “if you don’t know where you’re going, any road will take you there.” George Harrison’s 1988 paraphrase of a famous exchange between Alice and the Cheshire Cat in *Through the Looking Glass* (1871) offers a cautionary lesson for any leader that does not have a clear vision for their organization.



If you don't know where you're going, any road will get you there.

~ Cheshire Cat

Lack of direction can impact the most talented and competent teams, and result in a sub-optimal outcome for everyone. And it’s easy to confuse activity for results when you lack direction or key organizational objectives which determine your priorities. In such situations, mere survival is probably the most you can expect from your team.

Preventing a sub-optimal outcome requires an understanding of your organization’s purpose and the team you’ve built to serve that purpose. The tools you

have at your disposal are your existing relationships, your financial resources, and the lens you use to perceive the world. These tools will lead you down a path that may or may not be ideal for what you ultimately want your family office to achieve. In economics and systems theory, the Cheshire Cat’s wisdom is expressed through the language of “path dependency” which describes this phenomenon. Simply put, decisions in the past shape the possible options and

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outcomes available to you in the future.<sup>1</sup> Understanding the path dependencies that shape how information is perceived and managed is therefore vital to creating the team that is best designed to accomplish the objectives of your family office. After first considering some of the common path dependencies that shape family office team design, we will offer recommendations on how to manage these potential constraints. We will also provide some thoughts on how to incentivize and retain top talent once you select the right path for your organization to follow.

When it comes to structuring your family office, broadly speaking, there are three common path dependencies that family offices typically follow:

1. Trusted Informal Relationships
2. Trusted Formal Relationships, and
3. Professional Management.

These three paths describe the most common genesis points for any family office; and they typically predict the set of outcomes, strengths, and weaknesses that will define your family office, determine the road you are on, and the direction you are heading.

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<sup>1</sup> There is a rich body of research around the concept of Path Dependencies in organizational theory, physics, history, and economics. Niklas Luhmann, German sociologist and systems theorist, has emphasized the role of perception as constitutive to our understanding of path dependency. For Luhmann, the dependencies that structure systems are often functions of observation, rather than the other way around. This is good news for any change leaders: paths are not written in stone; they can be changed through a process of analysis and carefully structured decisions. For more on this, consider “The Autopoiesis of Social Systems” in Niklas Luhmann’s *Essays on Self-Reference*.

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## Trusted-Informal Relationships

With any major decision, our close friends and family are often the first people we turn to for help. The decisions that surround the formation of a family office are no exception. Frequently, the first hire at a de novo family office is a “Trusted-Informal Relationship”. Examples of such relationships include college roommates, in-laws, old friends, and trusted former co-workers. These relationships are based on trust and have often been built over the course of a lifetime. They are precious and often deeply treasured. But are they truly the best people to build or run your family office?

From a path dependency perspective, Trusted-Informal Relationships are the most varied and hard to predict because the individuals themselves represent such different backgrounds. Although their skills may be diverse, what remains consistent is an extremely high level of trust and personal connection to you and your family. In the best situations, Trusted-Informal Relationships have the skills you need to build your family office and can speak candidly and directly, especially when it comes to challenging your ideas in ways that others would not feel comfortable. The highest and best use of their trust is to act as a counterpoint to challenge your own ideas in ways that are helpful and productive. Inversely, these individuals can struggle and fall short when they lack the confidence to speak up or the skills needed to build a high functioning family office team.

## Trusted Formal Relationships

This category typically includes your trusted CPA, trust and estate attorney, or the company controller from your operating business, as an example, that has faithfully served you for many years in a professional capacity. These are people that have earned your professional

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trust (although perhaps not the same level of personal and intimate trust as those in the prior category).

As it concerns path dependencies, one of the challenges of hiring these people to build and run your family office is that they are often specialists and do not have the breadth of skills needed to build out a multi-faceted single family office. The proverb “if the only tool you have is a hammer, every problem is a nail” comes to mind. This phrase captures the very nature of path dependency relationships and is especially applicable when it comes to the Trusted Formal Relationships that make up a family office leadership team. An individual whose primary strength and expertise is in accounting will typically think about problems and solutions according to the logic of accounting. Similarly, a team that is primarily composed of private equity professionals will most probably apply a range of risk analysis and mitigation strategies to most aspects of the family office business. The ability to bring diverse backgrounds to problems is what generates new and better solutions, but it is easy to either push a team too far from their comfort zone; or worse, to miss out on practical solutions simply because it is outside the comfort zone of your team.

Trusted Formal Relationships can be most successful when they are empowered to engage outside experts to help in areas where they do not have the requisite knowledge and experience. Asking for help should be encouraged and finding ways to meaningfully expand the skill sets of your team will provide long-term value for your family office. In these situations, understanding the limits of your team’s knowledge and expertise is often more valuable than the knowledge itself.

## Professional Management

Consider the professional backgrounds of your leadership team and how those backgrounds line up with the long-term vision and goals of your family office. Most often,

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professional family office managers come from the world of wealth management, private banking, and private equity. However, this category extends to a whole host of high level strategic operations and includes newly emergent professional roles, including Chief of Staff. In addition to a deep understanding of the investment landscape and financial world, the networks, and relationships these professionals bring are often their greatest asset.

While these offices excel in matters of due diligence, structuring, and packaging investments, they sometimes lack the ability to connect their expertise with the long-term vision of the family, especially if compensation packages are not aligned appropriately. A misalignment of incentives can also lead to family offices that are extremely transactional in nature and which operate like privately owned hedge funds or private equity firms. These kind of family offices sometimes appear to be extremely transactional in nature. However, with the right team in place, and the right incentives, it is possible to build a highly effective investment office. Encouraging and incorporating a generalist-specialist approach with special attention to intergenerational transitions, long-term views, and building governance around family mission statements and investment mandates will help.

## Managing Path Dependencies: The Generalist-Specialist Approach

The various starting points, and the path dependencies that produce an infinite spectrum of family offices (“each one is a snowflake”), is also a function of the breadth of services that a family office can provide.<sup>2</sup> Every family office is going to have its strengths and weaknesses, and every family office will be called upon to undertake projects that are outside the comfort zone of the team. Understanding the path dependencies that shape your family

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<sup>2</sup> In our whitepaper “[Family Office Industry: Fact or Fiction](#),” we discussed this spectrum according to what we describe as “the two laws of family offices.”

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office can help you identify the types of cross-functional roles that will be needed to support and enhance your team's capabilities.

For many, it's impractical and unwieldy to hire a slew of full-time experts dedicated to different aspects of the business. And one might argue that the correlation between expert knowledge and success does not always lead to new and better solutions. This common cognitive bias is called "the expert myth."<sup>3</sup> However, more often than not family offices require cognitively flexible and dynamic individuals that can accommodate a broad and diverse set of challenges. In fact, the entire phenomenon of creative economic disruption is based around the assumption, and historical evidence, that bringing new ways of thinking to old industries creates an economic and organizational net benefit.

The path dependencies of family offices and the bias of the expert myth both point toward the same set of solutions: the best and most resilient family office teams are made up of diverse groups of individuals that all have different backgrounds and areas of expertise. Managing teams like this is especially difficult, because the teams themselves represent so many different styles of thinking and working. As such, the best approach in this context is to take a "generalist-specialist" approach. The generalist-specialist knows a lot about a lot of things; and would be equally comfortable speaking with private equity analysts, trust and estate attorneys, business operators, family office principals, and many more. These types of individuals are often difficult to find through recruiters who are more accustomed to hiring highly defined functional or industry roles (i.e., the proverbial square peg for the square hole).

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<sup>3</sup> David Burkus defines the expert myth as "The belief that a correlation exists between the depth of a person's knowledge and the quality of work that a person can produce." *Myths of Creativity*, 2014, pg. 67.

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The generalist-specialist resume and professional background by contrast will typically show a diverse set of experiences. Cognitive flexibility, adaptive communication and empathy, the humility to know when experts are needed, and the confidence to know when and how to push against conventional wisdom are the hallmark traits of a generalist-specialist.

Whether the generalist-specialist you chose to lead the family office has the title of CEO, President or Chief of Staff, the actual responsibilities of the role depend much on the trajectory of the family office itself. Every family office will have its own organizational biases and path dependencies. What's important is being able to identify the path dependencies that affect your own family office, understand what areas need to be improved based on the current and future objectives of the family office, and to design the most resilient and durable team for your needs.

As you consider how to build out or enhance your family office leadership team, consider the path dependencies that shape your current team's capabilities. Instead of simply identifying what kind of experts you need to hire, consider cross-functional "generalist-specialists" that will both contribute to the current team and evolve with the myriad needs and desires of your organization going forward. This not only allows you to retain top talent for longer, but it is also often more cost effective and organizationally efficient over time. The road is long, and great talent is hard to find, but identifying highly adaptive leaders that can grow alongside you is well worth the effort.

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**Marc J. Sharpe** is the founder and Chairman of [TFOA](#), an organization formed in 2007 to provide a forum for education and networking and to serve as a resource for single family office principals and professionals to share ideas and best practices, pool buying power, leverage talent and conduct due diligence. Mr. Sharpe is active in the community and has served on the Board of the Holocaust Museum Houston, the HBS Houston Angels, and on the Investment Committee for two Texas based foundations. Contact: [Marc Sharpe](#)

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