The 3Ts: Critical Forces Disrupting Our Future

Transitions in the family and family office are coming together in a perfect storm of imminent changes.

We are approaching the two-year mark since the COVID-19 virus first hit, and the challenges and implications are far from over. But we have made momentous progress toward protecting our communities against the virus and relaunching social and economic activity. We are starting to envision and plan for the "new normal" of our post-COVID lives and work.

A big part of FOX's mission is to stay closely connected to our community of members who represent top families of wealth, their family offices, and their trusted advisors and service providers. We aggregate, distill, and disseminate the key data points, trends, and insights that help our members see around corners and prepare to overcome impending challenges or seize timely opportunities.

From recent data, research, and member interactions, three major themes have emerged as we head into 2022. Some were already looming pre-COVID and some arose or accelerated during the pandemic. Collectively, they are the dominant disruption and opportunity topics that are top-of-mind for FOX members. We describe them as "The 3Ts" – transitions, talent, and technology – disruptions we are committed to helping our members navigate.

Transitions

In a real-time poll during the FOX Family Forum in October 2021, more than half the attendees indicated that transitions – both within the family and in their family office – are their top concern over the next 12 months. These transitions are not limited to one area of family leadership or office talent. Instead, they are coming together in a perfect storm of imminent changes spanning family generations, family office evolutions, and transitions among trusted advisors the family has relied on for decades.

Wealth Transfer in Family Enterprises

"We are seeing the largest wave of generational transfers of ownership, control, and responsibilities since the 1980s," says Sara Hamilton, FOX's founder, who has led FOX for the past 32 years. Demographics are the main driver here – a great number of family leaders and decision-makers who are actively involved in governance and direct investing are either approaching or are delaying what most would consider "retirement age."

The record activity levels in private equity and initial public offerings are driving massive – and sudden – wealth creation for many family business owners. Often, the recipients of these significant wealth transfers are not well-prepared for the transitions they and their families will face.

Alarmingly, only 29 percent of families have a formal family succession plan in place, according to the 2021 FOX State of the Family Office Industry survey. Too often the current and rising generations are not on the same page about when and how these transitions occur, what the wealth's purpose is, and how prepared the next generation is to accept stewardship and leadership responsibilities.

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– Sara Hamilton, FOX

Succession in Family Office Leadership

Family principals and their rising generations aren't the only ones challenged by this coming wave of change. Transitions – either due to retirement plans, possible departures, or new talent needs – affecting key family office executives are also on the near-term horizon. The 2021 FOX State of the Family Office benchmarking study indicates 31 percent of families anticipate a change in their family office leadership within the next five years, and 19 percent are not sure. From our conversations in the marketplace, FOX thinks the 50 percent who believe such transitions won't happen for at least another six years might be underestimating the need to plan for key management transitions.

Engineering and executing multiple employee transitions will not be easy or quick, as our analysis of the family office talent landscape indicates. Finding people who have the technical skills, experience, and family service mindset is a constant struggle. Developing, motivating, and retaining this scarce talent will be an even greater challenge for family offices, and thus make it a key office focus in the next ten years.

Selection and Continuity of Trusted Advisors

Given the changes within the family and their office, few families are focused on the same generational transitions affecting their external advisors and service providers. So many accountants, wealth advisors, investment professionals, trustees, and attorneys – in small private practices and across the largest firms – are in their 60s or 70s and still working on their succession plans.

It took these professionals two to three decades to develop the skills, knowledge, and relationships required to serve multigenerational families of wealth, let alone earn their trust. If they have not yet identified, educated, and groomed their own rising generation of high-potential advisors, and introduced them to current and rising gen family clients, they are now behind the curve.

In addition to the retirement wave, the sheer level of demand growth advisors are experiencing from existing and newly formed family offices is challenging

TRANSITIONS TIPS

- ***Planning.*** *For families and advisor firms without a current strategic plan, now is the time to develop one, or refresh an existing one. Succession should be an integral part of the strategic plan, even in the face of longevity or intergenerational disagreements. Current leaders looking to pass the torch to younger successors must identify, understand, and embrace the values and beliefs that motivate the rising generation, and embed them within the strategy.*
- ***Governance.*** *If governance structures and processes aren't in place, or if they haven't been revisited and updated with the younger generations' active involvement, transitions will falter or fail. To successfully navigate successions, infuse the board or family council with the perspectives and voice of the rising gen and of independent directors, trustees, and advisors.*
- ***Education****. Learning and engagement, especially for rising gen family members and advisors, are not just "nice-to-have" initiatives – they are paramount to any transition's success. The time is now to invest in developing the skills, experience, comfort, and trust the next generation will need to successfully take the reins. Formalizing education and talent development should be a top priority for families and advisors alike.*

many in their ability to staff and serve their clients with the levels of quality and expertise they are accustomed to.

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Talent

The wave of approaching transitions in the family office space and the pandemic-accelerated workplace and workforce evolution are fueling a widespread focus on talent, both internal and external. More than a third of real-time poll respondents at FOX's Family Forum chose talent as their top concern for the coming year, with 36 percent indicating they are most challenged by recruiting, 20 percent by developing, and 15 percent by retaining talent.

Experienced employees are reevaluating their priorities and retirement timelines. Younger professionals are much more focused on flexibility, career path, wellness, and purpose. Employers have to juggle these new expectations and the resulting scarcity of qualified talent. The "war for talent" is raging with renewed intensity across the family office industry.

Resignations and Scarcity

"The Great Resignation," a term coined by Texas A&M University management professor Anthony Klotz, is here and real. In August 2021 alone, 4.3 million people voluntarily left their jobs in the United States, according to the U.S. Bureau of Labor Statistics. Monthly "quit rates," defined as the percentage of the total workforce resigning from their jobs, are approaching 3 percent for October, having never surpassed 2.4 percent in the past 20 years. The family office industry has been no exception – the number of FOX members experiencing unexpected departures has spiked.

Cultural considerations and expectations are becoming increasingly important in the talent marketplace.

At the same time, despite the record layoffs and unemployment during the pandemic's earlier months, talent shortages are now pervasive across industries. The challenge is particularly acute in the family office industry, given the specialized skills and experiences required to effectively serve families of wealth. For example, the need for family office accountants is so great in the United States that FOX members report some wealth advisors and accounting firms are extending future employment offers to college juniors enrolled in leading accounting programs.

Wellness and Balance

The COVID-19 pandemic had many unexpected effects on the labor market. One of them has been the emergence of mental and physical well-being as a top priority for employees, often trumping more traditional employer benefits. Another one is the rising importance and expectation of greater flexibility and balance – including where and how employees do their work.

Having spent nearly two years deprived of normal human interactions and under a constant threat to their physical and mental health, most people in the labor force are seeking the kinds of jobs and employers that will allow them to take better care of themselves, their families, and their lives. At the same time, 18 months of working on Zoom® or Microsoft Teams® has proven to both employees and employers that long commutes, fixed workhours, and crowded urban offices don't represent the best way to engage valuable staff.

Most employers now expect their employees will continue to work remotely at least one to two days per week, even after the pandemic ends. If families and family offices generally expect or require their employees to be in the office to meet the family members' needs, this will be a competitive disadvantage in the new post-COVID talent environment.

Purpose and Values

Millennials now represent one third of the U.S. labor force, according to Pew Research Center, and Gen Z graduates are starting to enter the talent pool. Compared to the Baby Boomer and Gen X professionals who preceded them, these younger generations have very different worldviews, beliefs, and value systems. They place a much higher emphasis on finding purpose in their work, delivering a positive impact on society and the environment, and seeking out employers with strong diversity, equity, and inclusion (DEI) practices.

The pandemic's shock and disruption has caused even older professionals to reexamine their priorities and what they look for in a potential employer. As a result, these cultural considerations and expectations are becoming increasingly important in the talent marketplace – sometimes more so than career path, employer prestige, or even promotions and pay raises. Working for a family that has clearly stated values and a shared vision for meaningful impact will be more appealing to many prospective employees.

The same intergenerational values gap is present within family councils and family offices. For rising gen family members to step in, become fully engaged, and contribute meaningfully to family leadership or running the family office,

TALENT TIPS

- ***Culture.*** *The talent war will be won or lost on culture and values. Families and advisors should start their strategic planning process by refreshing their core values, vision, and mission. They will need to emphasize their purpose and impact as key differentiators to attract and retain key professional talent. They should spell out and formalize their social, environmental, and DEI beliefs and policies.*

- ***Development.*** *Recruiting alone will not be enough to meet family offices' and wealth advisors' talent needs. Developing younger, high-potential talent from within the organization should be a core human capital strategy. Training, coaching, and professional development will be critically important talent engagement and retention tools.*

- ***Flexibility.*** *The talent landscape is a "sellers' market" and is likely to stay that way for a while. Family offices and advisors should adjust their practices, policies, and total compensation packages to meet the flexibility, wellness, and life balance expectations of the scarce and upwardly mobile professional talent they compete for.*

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the current G1s and G2s will have to be open to hearing and accepting these new belief systems. Finding the universal values that connect the family across generations and branches will be critical.

Technology

The challenges associated with imminent transitions and talent scarcity are adding to the ongoing disruption of family office technology transformations. The family office sector is growing increasingly attractive to technology players, causing a proliferation of software applications, user interfaces, and data managers. Integrating and synchronizing these resources can be overwhelming for family enterprises, family offices, and advisory firms.

Systems Architecture

Family offices and their external advisors are juggling an overwhelming amount of change and disruption driven externally by regulations, the markets, and technology, and internally by constantly evolving family needs. This fuels a rapid cycle of innovation. With new tools and solutions coming to market constantly, family office executives are in perpetual reactive mode – discovering, evaluating, selecting, and deploying new software throughout their operation.

The result is a multitude of makeshift implementations that over time compound the inefficiencies and structural gaps plaguing family office systems and processes. Most family offices are not systematically including technology infrastructure and applications in the scope of their strategic plans. As a result, they are behind on developing and implementing a strategic technology roadmap or even having a good understanding of the ecosystem's players and solutions.

Privacy and Cybersecurity

Privacy, identity theft, and cyberattacks are rapidly growing concerns for everyone as more and more of our lives migrate to the digital realm. But for family offices these risks have always been of paramount importance. Cybersecurity is the number-one concern for FOX members, according to the 2021 FOX State of the Family Office Industry survey – 49 percent indicated they are very or extremely concerned about it, and without the proper tools to monitor the risks.

The fragmented nature of family office systems, data sources, and user interfaces, as well as the lack of strategic IT planning and holistic architecture, are amplifying the cybersecurity risks families and their advisors face. Three-quarters of FOX members reported they deliver sensitive financial reports by email via an online portal, but only 42 percent encrypt the data and only 13 percent deploy two-factor authentication. Cybersecurity planning and education are becoming a priority for a growing number of family offices, but 37 percent still have no formal plans or training in place.

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Inadequate Resourcing

A small percent of family offices have an in-house IT team, and those who do are notoriously understaffed and under-resourced, especially given the level of wealth they must protect and manage. The family offices responding to the 2021 FOX State of the Family Office Industry survey spend an average total of US$4.2 million across all services, with US$2.3 million dedicated to internal office costs. Yet, on average, they only allocate US$123,000 annually (a mere 5 percent of the internal office budget) to technology. The median is less

TECHNOLOGY TIPS

- ***Strategy.*** *An integrated IT strategy and architecture should be a mandatory and integral part of family office strategic planning. Translating the family's and office's needs into clear requirements, identifying the best solutions, and running a disciplined provider selection and integration process are critical to deploying technology in an efficient, secure, and user-friendly way.*
- ***Data Model.*** *The most important data design decision facing family offices and their advisors is how to create the right architecture for deep interconnectivity. Key steps are deciding what data comes from which applications, how to store it for easy access, and what applications need to access, utilize, and display it. Once the right data architecture is in place, family offices can swap or add new data-generating or consuming modules based on fast-moving factors, such as new technologies, regulations, or family preferences.*
- ***Ecosystems.*** *Having some in-house IT expertise is important but given how quickly everything – from family needs to technology tools to market landscape – changes, family offices should emphasize external partnerships, alliances, and strategic outsourcing as the core mechanisms to enhance their tech capabilities. Building a dynamic ecosystem of software builders, managed-service providers and critical integrators is the approach to develop a future-proof and agile technology strategy.*

The three steps FOX has identified to help you address the 3Ts reflect a best-practice strategic planning process.

Coming in 2022, we will publish a Strategy Checklist Framework that will help you implement strategic planning for your office more broadly.

than half that (US$48,000 annually), indicating most family offices severely underspend when it comes to IT.

The reality many family offices face is a significant and growing reliance on external IT resources, consultants, and technology providers. A growing stable is required to stay abreast of the fast-evolving landscape of software vendors and integrators, and to adapt and connect off-the-shelf products and services to the needs of the family and its many advisors. According to FOX's 2021 State of the Family Office Industry survey, 39 percent of family offices are increasing their level of outsourcing, primarily because they don't have the core skills (67 percent) or capacity (60 percent) internally.

Developing a Plan

FOX will continue to bring insights and resources to our members to be able to respond to the transitions, talent, and technology disruptions we foresee. We encourage every governing board to have a focused discussion about these three critical dynamics that will affect the next decade dramatically.

Step 1 – Purpose: Understand the Risks

Understanding the enterprise priorities and outcomes is the first step toward a relevant plan. Not investing in the 3Ts could dramatically alter the family's enterprise goals. FOX can help facilitate a board discussion to assess your risk severity for each of the 3Ts.

Step 2 – Planning: Develop Action Steps

Identifying what actions are needed to minimize these risks is a critical second step. Using external advisors to help analyze and monitor the 3Ts will provide the governing board the needed new perspective to make smarter decisions.

Step 3 – Execution: Invest in the Future

Making a commitment to fund strategies addressing these risks is the third step to ensure the family or firm reaches their generational goals. In order to achieve lasting impact, that commitment also needs to include processes for monitoring and discussing any potential factor or circumstance that may change these plans.

As we look ahead into 2022, FOX will continue to bring insights and resources to help you respond to the transitions, talent, and technology disruptions we foresee. We'll also continue to share how your peers have addressed them as well, so you can model your approach after similarly structured organizations. Because ultimately, fortune favors the prepared.