

# How to determine whether your family office is successful

BY CHARLIE CARR

Last year, someone asked me a simple question that led to quite a bit of thought and discussion: How do I know if my family office is successful? The most common initial answers (investment returns, tax benefits) feel flippant and incomplete. One former family office president said, “I considered each year a success if I didn’t screw anything up ... (long pause) badly.”

What became clear is that very few family members or office leaders had thought about this question. If they measure success at all, their assessment is based on total expenses or investment returns, because these are the easiest factors to quantify.

If you don’t know how to define success, then how can you properly do strategic planning or decide where to focus new resources?

## Derailers of success

We believe that most initial responses to this question are derailers of success rather than measures of success. In other words, good performance in these areas does not define success for the office, but poor performance can take the office off the track toward success. Here are a few examples:

- *Investment returns:* Great investment returns generally do not make a family office successful, but messing up investments can make the office a failure. If a large investment flames out, or even if returns significantly trail their benchmarks, the family may place the blame on the office and its leadership.

- *Taxes:* The family office might minimize tax liabilities and provide excellent tax planning, but this may be viewed as just doing its job. Losing an IRS audit or realizing that the family could

have saved millions of dollars with better tax planning before selling a business or investment may define failure for the office.

- *Fraud:* Discovering that an employee stole from the family or perhaps uncovering how an outsider successfully committed fraud may make the office appear to be a failure. If there wasn’t any fraud last year, or at least none that you are aware of, the perspective may be that the office did what it was supposed to do. But does that mean it was successful?

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- *Service:* Most family office staff will go to extreme lengths to provide any service or support that the family desires. Often, such efforts become expected and don’t constitute success, whereas not doing so may be an irritant or failure in the family’s view.

- *Total cost:* One family member told us he viewed the family office as a bottom-line number: “Do we really need this many people?” We doubt many people consider staying within budget to be their definition of success.

Each of these things may be compared to the starter on your car. When you turn the ignition (or press the button on many cars), you don’t think about whether or not the car will start, unless you recently had problems with it. Being able to start the car doesn’t guarantee that the journey will be successful, but if the car does not start, the journey will likely be a failure.

## What is success?

The definition of family office success will vary, depending on the family and the office. What is the purpose for the family office? Most often, even when the family hasn’t defined it explicitly, the purpose is to promote the family’s legacy. How well does the



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family office support the family's vision and hopes for the future, in addition to supporting their financial ability to pursue these dreams? This likely has more to do with maintaining family unity and cohesion, maximizing the family's human capital (rather than financial capital) or seeing an entrepreneurial spirit and passion persist in future generations.

In the earlier analogy of starting your car, the car is a means to support your journey, whether that is to the grocery store or on a vacation. A family office is part of the means for a family to achieve its vision or legacy — the vision or legacy is more important than the office.

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One family told us their family office's purpose was to "remove the burdens of wealth from the talent [next-generation family members], so they can focus their time and attention on the business." For this family, success can be measured by how much work has been removed from the family members. Another family told us that the founder has very strong values, and they will measure success by whether or not the values remain after the founder passes away. This is harder to measure, but an admirable objective.

It is not an easy exercise, and it requires being intentional in thinking through your purpose and identifying how you will define success.

### Measuring success

Once you identify how you will define success, you need a reporting dashboard to track it. This should

be a one-page report, measuring not just the primary measures of success, but also the derailers. A good report will track what will make the office a success, as well as factors that could prod the family to say it is a failure. The measures should be both short-term (e.g., How we are doing this year?) as well as long-term (e.g., How we are doing over five years?).

The easy metrics are typically the derailers: total expense, investment returns, tax liability and fraud. How do you report on fraud? If you were a victim of fraud, you obviously report that. If you are not aware of being a fraud victim, perhaps you report results from accounting controls or from your regular ethical phishing tests (because you are doing those, right?).

How do you measure family members' entrepreneurial spirit and passion? One family decided that a partial answer was to track the percentage of family members whose earned income is at least as much as the distributions they receive. This is not a clean proxy, but it's moving in the right direction. Another family tracks level of academic degrees earned and ongoing educational efforts.

One might wonder how the family office can impact or influence these results. Once you understand the vision and desired legacy for the family, the office leadership can get creative in helping them move toward that vision. If education is a big part of that, then the family office can help each family member find ways to further their education or participate in relevant conferences or seminars. If entrepreneurship is important, the office might find relevant speakers for the family retreat as well as provide one-on-one coaching.

Supporting a multigenerational family legacy is never easy, but don't let the challenge deter you from putting in the effort. Start with intentionality, then add creativity from your leadership team and a lot of hard work — and prepare to celebrate the success of your family office. FB