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The Inefficient Office The Case for a Business Process Review

By Elaine Spang

Have you found yourself asking why it takes so long to get information about your investments; so long that the information you finally receive isn't current enough for you to evaluate whether your portfolio and your managers are performing adequately? Perhaps you wonder why it takes so many people to keep track of the family's financial data, especially when meaningful and timely reports are not available. Are you puzzled as to why the cost of running the family office is so very high, when client service and responsiveness is less than what you expect? It may be time for you to consider having a professional business process review.

A family office tends to have many attributes of a family-owned business; however, the nature of the office is much more personal, being built on trust relationships between the family members and the family office personnel. While today's family offices perform three primary service roles – investment management, financial administration and fiduciary responsibility – it is the back office management function that supports these service roles and is the one that most often is neglected. The back office function is an indirect service function, and therefore not as clearly value producing as the other family office functions. The financial impact on the office of having a less than efficient back office, while subtle, can be significant, and this paper addresses those costs and a possible solution.

Family Office services have tended to evolve from an informal administrative and accounting relationship to a formal business office with greater staff providing more structured services to an expanding group of family members. The office evolution typically begins with a single trusted employee who assists the founder by coordinating investment, bill paying and other administrative services. Reports are created as needed and totally customized to the founder's needs. The technology used is basic, perhaps Quicken or QuickBooks for financial and investment data, spreadsheets for reporting and maintaining information and calculations not available in the financial package, and other standard office products such as a word processing program.



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Over time, younger family members join the family office as clients, active managers or both. Possibly, other families have become clients and the office has transitioned into a multi-client Family Office. The scope of investment strategy has expanded; more sophisticated and complex approaches are taken to investing. Trusts and family limited partnerships have been formed. The range of services has expanded to include additional, diverse investment advisory and financial services, tax and estate planning, risk management and charitable giving. From a single trusted employee, the back office has now grown to include accounting, investment, analytical, and administrative staff. At the same time, the tools used by the office have also expanded, in most cases, separate pieces of software purchased for specific purposes, often times without serious analysis and evaluation of long term requirements, or how the software complements and integrates with other office tools. Office computers have been networked and additional hardware has also been purchased, usually on an as-needed basis, a new computer for a new hire, a faster printer, a scanner. However, price was the overriding consideration; there was no measured assessment of short and long term storage and system requirements, general technology needs with respect to information capture and delivery, or compatibility with other machines or software.

While this office expansion has been taking place, the back office staff has established procedures to gather and report investment, financial and other information and to deal with the many administrative projects and requests of the family members. Frequently, the procedures are specific to the individual performing them. Different personnel are responsible for different family individuals or groups, and the nature of capturing and reporting information to them varies from one employee to another. Such fragmented processing typically results in significant redundancy of effort and errors, making it complicated to maintain control of assets, consolidate data or to research activity. As the processing becomes more disparate, control and time issues become more strained. The end result is that:

- It takes more people to do the work, because the work flow is not efficiently designed or defined.
- It takes more time to get the work done, because there is no consistency from one staff member to another as to how the work is performed. The lack of specific job descriptions often



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- results in an “It’s not my job” attitude. Report times begin to expand, and information becomes less reliable.
- Understanding of the operational objectives becomes blurred; there is a loss of client focus. The expectations and needs of the family take a back seat to the non value added processing activities of the back office staff.
 - Staff becomes alienated and turn-over begins to increase
 - Control and protection of the family’s assets may become compromised.

Let’s look at each one of these consequences for the family.

More people. The cost of running a family office tends to steadily increase each year. While increased operational costs are not necessarily something that can be or should be avoided, the increased cost should be directly related to the addition of value added services. In addition to the human resource cost, more people require greater infrastructure in terms of equipment and space, along with the costs spent in terms of time to train and educate. What kind of savings could the family achieve if back office staff could be reduced through more efficient operations, and if the remaining staff could provide additional, value added services?

More time. We have all heard the old adage “Time is money”. While excess staff cost can be more readily measured in hard dollars, there is more than a subtle cost associated with wasted time. If the information you receive does not facilitate decisions that could help you maximize your returns, what price are you paying for the inefficiencies of your back office? Unfortunately, waste comes carefully disguised as useful work.

Blurred goal vision. The focus in a family office should be on its clients. In many offices, services are not necessarily well defined, or are customized to such an extent that that the same service actually looks different for each family member. Client demand drives the workflow process. However, without an organization wide understanding of the goals of the operational process, the tendency is for the process to override the goal. The needs of the clients become secondary to the processing of the work, and the goals are redefined by the needs of the back office rather than the clients. This leads to frustration on the part of both the clients and the staff. The clients are



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frustrated that they can't get the information and service they need on a timely basis, and the staff feels pressure to produce output in a timeframe and manner that compromises their perceived processing goals. Rather than working in harmony, the clients and staff are actually working contrary to everyone's best interest.

Staff turn-over. As staff members become more and more frustrated, they may begin looking elsewhere for employment. The cost from staff turn-over can be staggering. Dissatisfied people are less productive. When an employee leaves, an additional burden is placed on those remaining to "pick up the slack" until a replacement can be hired, causing even more disruption to processing and reporting timetables. If the employee was one who had been with the family for several years, the knowledge and understanding of the clients who were served by that employee are lost. Then there is the cost of searching for a replacement including agency fees, background checks, and time spent interviewing. When the new hire is finally on board, time must be spent training the new employee, and family members need time to become comfortable with the new person before meaningful communication can be established for that individual to effectively deal with the clients. And after all that, it is not likely that the workflow processing has been improved, so the same cycle of inefficiency remains unchanged.

Control and protection of assets. The ultimate price that the family office may pay from this circle of frustration and inefficiency is that the control and protection of client assets may be compromised. There is no effective internal control where a lack of defined and efficient process exists. The family office must rely on the honesty and integrity of its staff, which may or may not be sufficient to assure the protection of client assets. Even the most loyal and trustworthy individual may be compromised when presented with easy opportunity, particularly when he or she is frustrated to the point of feeling a sense of "entitlement" based on a perceived excess workload burden or a sense of not being appreciated.. Loss could be unintentional such as simply losing track of assets as a result of employee turnover and inadequate or inconsistent recordkeeping.

What can the family office do to reduce the hidden cost of services inherent in a system with less than optimal process flow and controls? Perhaps it is time to take a critical look at the family office operations



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and evaluate whether the family is at risk in any area. Certainly, it is easy to identify an office in extreme crisis; however, many family offices may appear to be functioning efficiently when in fact they are not. Virtually every office has room for improvement. A professional business process review could make a significant difference in the quality and value of service your clients receive.

A business process review performed by an objective professional can help the family office identify those areas where non-value added processes are preventing the office from achieving its maximum service potential. Business process re-engineering for the Family Office is client-centric, focusing on industry preferred practices. The approach encompasses the whole organization, both technical and cultural with an integrated, cross-functional scope. The goal is to transform fragmented activities into a continuous stream of value added processes, with the workflow being driven by client needs. In other words "Do only those things that add value to service provided to the client... eliminate everything else."

An operational business process review project is two-fold. Simplistically stated, the first stage of the project is the on-site review or the needs analysis phase. Depending on the scope of the review, ranging from a specific high-level objective to an all-encompassing detail evaluation, on-site interviews are conducted to:

- assess the current environment, culture, technology and processes (the "as-is")
- define the requirements and needs based on the stated objectives
- identify and recommend process and system opportunities for improvement

The product of this phase is a detailed document that becomes the foundation for the implementation phase.

The second stage of the project is implementation of the recommendations. The success of this phase requires significant commitment and support of the Family Office management. Process improvement requires change, and unfortunately, resistance is most often the reaction to change. Recognizing that resistance is not about logic, but rather about emotions, a skilled process change professional



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can assist in establishing a meaningful dialog with all affected individuals to:

- Promote understanding of the “big picture” – buy-in to the change
- Encourage a sense of belonging and contribution
- Involve everyone to create a sense of ownership
- Inspire individuals to step up to the challenge and promote teamwork
- Build the case for change and communicate often and meaningfully with individuals at all levels within the organization
- Measure success in increments to continually motivate and enforce the change process

A Family Office is all about its clients. In order to effectively deliver the services required by high net worth clients, the Family Office necessarily must have in place an operational system that provides its professional staff with the appropriate tools and organizational structure to successfully perform their jobs. This goes far beyond simply having certain software and hardware. An effective Family Office needs to look beyond the obvious and periodically evaluate whether the processes performed within the organization help to add value to clients and protect and preserve the assets. A business process review is one way to obtain such an evaluation, and acquire information to assist the Family in proactively reassessing the services most valuable to its clients and establishing and maintaining a quality, cost effective system of service delivery.

Elaine Spang is a principal of Family Office Metrics, LLC, a service organization providing business advice and technology solutions to high net worth families and family offices, exclusively.