Leadership
Insights

Growing the family office future with talent and compensation

By Michael Meier, Christian Redhardt and Marie-Luise Back

Family offices have existed for generations and there are more now than ever before. With the market growing and changing, the question of talent acquisition and company growth is front of mind for family offices. Building out a team for a family office poses a number of challenges: where to find the talent, how to retain them, and how to pay them. Egon Zehnder held a round table where these new hurdles were discussed, and we were able to gain insights into how family offices are growing in the modern market.

The ongoing hunt for talent

There are two pathways for growing the team – family hires and outside talent. With family hires, the pool in which you are looking is fairly small but very connected, as potential hires are either related to or linked to the family to whom the office belongs. However, family members make up a relatively small contingent of a family office – the global average sits at 18 percent. This number is higher in some regions, with Asia Pacific having the highest family hires at 32 percent.

Accessing outside talent is a slightly more complex process. Family offices are seen as very attractive employers for executives, but it is challenging to attract talent that is not familiar with the family office world. For those who are in the know, it is a compelling career path due to the perceived leeway to take decisions and work on an investment portfolio. Executives who come from a corporate financial services background view family office roles as a space to be creative and collaborate with their clients.

But the majority of potential candidates are not aware of the benefits of working in a family office because it is perceived as a secretive space that is not welcoming to those who are not in the know. This lack of connection between family offices and the talent they are interested in hiring makes it difficult to grow a team.

This disconnect runs both ways. Whilst potential hires are unaware of the benefits of working for a family office, family offices are struggling to get relevant data on new talent. The family office market is too specialized – there is limited data on the inner workings of the industry. Big data providers that are generally used to help companies find talent are often too general to provide an in-depth focus on the best people for a family office position. The professionals that we spoke to suggested that the creation of peer groups with trusted advisors may be a way of getting an approximation of the talent pool and establishing connections with potential hires.

Successful integration of talent

With family offices, the search for talent is only part of the challenge. The transition from a large financial services institution into a family office can be a major cultural change for executives. One of the key contributors to this is executives believe that working in a family office will provide them with a lot of freedom but in practice they often find that this is largely dependent on the principal of the office. Another consideration is that many of the executives that shift from financial institutions to family offices are used to running large teams and family offices tend to be fairly small. The smaller office means that there is a lot more room – and expectation – to train up younger talent, which is not generally a part of the responsibilities of an executive at a big financial institution.

Family offices will often seek out executives who have already successfully transitioned to another family office in order to avoid the complexities that arise when hiring someone with no experience in family office work. However, this is a fairly small pool of candidates which adds to the complexity of finding the right person for the job.

Compensation and incentive trends

In family offices, the incentive structures for employees vary significantly depending on the values of the principals. There are two key decisions that are informed by the principals' values: variable compensation and the degree of individualistic incentives.

The presence and structure of variable compensation differs from one family office to another. Some principals may decide that there is no variable compensation component for their employees and thus compensation is fixed. Others may decide that a performance-based incentive is worthwhile in their business. For those that do opt for a variable compensation component, the structure of this is more or less at the discretion of the principal.

Variable compensation structures tend to be informed by valuations, which look different in a family office. Private equity funds have valuation events – such as exits – which family offices do not. As such, it is important to set up regular valuations to better inform the variable compensation structure.

The other consideration for compensation is the degree to which it is rewarded on an individual basis. Calculating incentives based on individual performance looks different to using a team-based, or even organization-based, approach. Generally speaking, the more specialized the company is – and the more it directly benchmarks its performance against other top class investment institutions – the more likely it is that compensation will be more individualistic.

Generational portfolios often lack the valuation events that private equity funds have – such as exits. As such, it is important to carry out valuation considerations to inform formulaic variable compensation structures.

Family offices – much like the rest of us – are having to become more adaptable and agile in today's working world. This is particularly true in the search for new talent, which requires creativity and connection to overcome the isolated and complex nature of building a family office team.

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