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# **Playing Ball on Running Water**

The Strategic Importance of Human Resources



## THE FAMILY OFFICE ASSOCIATION

# **Playing Ball on Running Water:**

### The Strategic Importance of Human Resources

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## INTRODUCTION

# Playing Ball on Running Water: The Strategic Importance of Human Resources

Family offices are facing a critical set of inflection points. We are observing three emerging core trends that are challenging the industry to rethink its approach in fundamental ways. The first core trend is the recognition that effectively managing the client experience, as expressed through the family office's brand promise, is critical to enduring success. A second trend is the recognition that understanding family culture plays a pivotal role in generating successful outcomes around both brand promise and client experience. And finally, there is a growing awareness of an extraordinarily tight linkage between governance, strategy, execution and human resources.

expectations and deliver superior performance. At the same time, they have too often been expected to deliver services for which they are not equipped within a sea of changing and idiosyncratic expectations by their clients. In this sense, running a family office can be like playing ball on running water. Finding coherence is often elusive.

The three trends identified above – when disconnected – look like more of the same – at best increasing complication and at worst simply chaotic. Yet we believe, these trends converge and can actually serve to accelerate the power and effectiveness of the family office by creating clarity, focus and alignment. As we will see, the tip of this spear lies in the role of human resources. Traditionally, HR has been seen as a graveyard for administration and compliance. We suggest that the HR role is in fact a matter of strategic importance. **Getting the right people on the bus, sitting in the right seat, to borrow from well used Jim Collins idiom, is not a tactical consideration, but a strategic imperative.** We all know that, at the end of the day, the success of the family office depends on the people it hires. But getting the “right” people on the bus requires that we ask some deeper question first.

### Three Emerging Trends in the Field

Client experience and family brand matter

Family culture is critical to successful outcomes

Governance, strategy, execution & human resources are tightly linked

Leaders of family offices are recognizing that capitalizing on these trends will be key to driving their success. They know that they must meet client

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## SECTION 1

# Family and Family Office Culture Demystified

A good place to start the inquiry is with an understanding of the role of “culture” in both the family and the firm. Ultimately finding the “right” people is driven by and affects both firm and family culture. Culture is an elusive concept. As you try to put your finger on exactly what culture is, it always seems that you have only touched a very small part of a very large elephant. This is particularly true when you are speaking of “family dynamics” and the culture that supports it.

Families intuitively recognize their unique ‘makeup’ and how they function and interact within the family. They can describe their interactions in great detail and tell many stories about themselves. However, what drives all of this behavior is often opaque and the explanations for it are superficial. What they cannot do is “go meta” and clearly see the dynamic patterns of their own culture. They remain in the thick of these dynamics. In the family office, these patterns may be obvious, but they are difficult because the drivers are so complex. They are mysterious and mystifying to all concerned. For the family, they make perfect sense but they feel trapped. For the outsider, they can seem totally irrational and maddening.

It is axiomatic that behavior in groups is never random. There are reasons for everything that happens – however irrational it may appear to an outsider. Yet those reasons are rarely simple or amenable to facile explanation. Understanding familial behavior is usually buried in very complex matrices of emotion, relationships, desires, roles, scripted action patterns, trance responses and competing commitments. Understanding this complexity by analogy may be useful. One way to view ‘culture’ is to see it as the ‘software’ which runs a group’s behavior. Culture, in this sense, is an operating system shared by the family members which tell it how to function. Understanding the family culture requires understanding the ‘code’ embedded in this familial software. We submit that for a family office to work effectively with a family requires some understanding of this ‘cultural software.’ The greater the understanding, the better the family office can respond to the family dynamics. Otherwise, while family offices typically see these patterns and work with them as best they can, they often do so in ways that are reactive as the family dynamics themselves. This is where a deep dive assessment of family culture

## SECTION 1: Family and Family Office Culture Demystified

– by someone who understands how family culture functions – can be profoundly helpful to the family office.

Those who professionally serve families have for too long, mischaracterized the family's culture as just the 'quirks' to be endured or worse, simply overlooked or disregarded these attributes while focusing on technical performance. They may supply professional investment strategies, source deals, deploy and manage assets or provide general administrative support. But the focus on the technical issues, without regard to culture, creates a profound blind spot that sub-optimizes the creation of true value.

On the other side, it seems largely unrecognized that the family office also has a culture distinct from the family – its own distinctive 'software.' Many family office personnel when asked about their firm's culture will say that it is the same as that of the families they serve, thereby manifesting a significant blind spot to their own operating system. Other family office personnel will be able to point to elements of their culture, but few truly understand it. In the same way that families cannot see their own culture, so too family offices. It is simply the water in which they swim. These blind spots of both family and firm can wreak havoc on both.

As a starting point, it is important to recognize that the family and the family office are two distinct groups with two different operating systems serving two vastly different missions. While every family is different, ultimately they are wrestling with the basic cultural dilemmas of inclusion. Every family office is also unique, but their adaptive challenges revolve around generating cultures of performance. Two cultures, with different adaptive challenges, that must work together to be effective. Whenever those two cultural operating systems cannot seamlessly 'talk' to each other, there is a breakpoint that degrades the experience of the family and the performance of the family office to meet the needs of its client families. The greater the clarity around culture, the less likely these breakpoints will occur. When they remain unaddressed, the 'client experience' felt by the individual family may be inadvertently imperiled. If these breakpoints become frequent, a dysfunctional cascade and a great deal of drama ensues. For the leader of a family office, 'decoding' the cultures of the family and the family office becomes a critical skill necessary to optimizing performance and fostering the desired family experience. Often understanding these two cultures requires formal quantitative and qualitative assessment. Only with that degree of granularity and definition can the family office platform configure itself for success.

While every family is different, ultimately they are wrestling with the basic cultural dilemmas of inclusion.



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## SECTION 2

# The Dynamic Interplay of Two Cultures

At a most basic level, non-family family office employees are not and will never be ‘members of the family.’ When rhetoric is confused with reality on this point, problems follow. Employees may be beloved, but they are never blood. Beyond that, the family office serves a unique and particular function within the family system it serves and requires a specific kind of internal culture to be cultivated and developed to properly fulfill that role.

To understand the intrinsic cultural divide, it is useful to look at the functions of family and family office cultures. Family culture is fundamentally tribal. Families are what the anthropologists call ‘kinship systems.’ They are based on marriages, divorces, deaths, births, life stages and so on. As such, its core purpose lies in self-perpetuation through the raising of children and mutual support of the common good of one another. This gives rise to its existential cultural dilemmas of inclusion. Its efforts to resolve these dilemmas are done through stories, patterns of moral obligation, core values, modeling, mentoring, and so on. Families may do this well or badly, but all families do it. Thus families

are cultures of ‘inclusion’ – those within the ambit of the family, as defined by the family, are part of the family culture.

Conversely, the family office is designed to fulfill specific needs of the family. To do its work well requires high degrees of professionalism,

To do its work well, [the family office] requires high degrees of professionalism, organization, process discipline and the like.

organization, process discipline and the like. The family office is an affiliation of individuals based on core capacities and proven competencies. Consequently, it is not ‘tribal’ but ‘corporate and like all corporate systems, is premised on performance. If performance lags, risks to the tenure and stability of the family office become problematic. It defines itself by metrics, practices, structure, and so on.

## SECTION 2: The Dynamic Interplay of Two Cultures

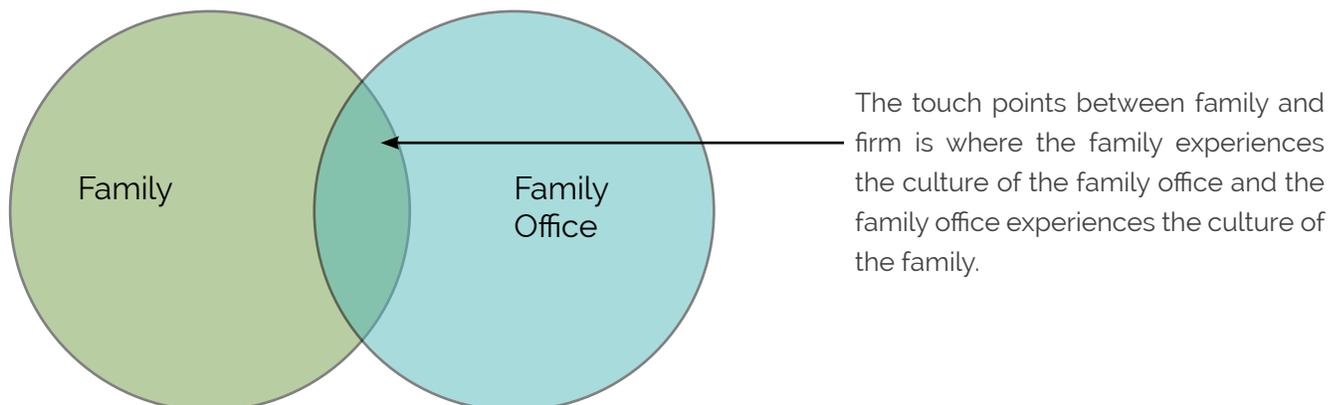
The dilemmas it must solve revolve around its capacities and capabilities to deliver value in its marketplace.

By our analogy, the ‘operating system,’ or the culture of the family operates to leverage inclusion while the operating system of the family office operates to maximize performance. Of course, in the real world, these demarcations are often blurred. Family and firm can become enmeshed. When boundaries become unclear, rules and practices that may be suitable in families are imported into family offices in ways that degrade performance. Likewise, if the family office functions subvert qualities of inclusion, families suffer. Understanding the two cultures, and how these two cultures function together becomes key

to the successful functioning of the family office. In the end, the family culture and the family office culture must remain distinct, but compatible at their interface.

The touch points between family and firm is where the family experiences the culture of the family office and the family office experiences the culture of the family. These touch points can be seen as ‘client experiences.’ Managing the client experience at this intersection requires a keen sense of culture management by both family and family office leadership. One way to understand this intersection is to consider the client experience through the lens of ‘brand.’

Figure 1  
The Interaction of Family Culture & Family Office



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## SECTION 3

# It Comes Together in Client Experience

The vital client experience stands squarely at the intersection between the cultures of the family office and the family itself.

Families working with family offices perform a complex dance around the role and function of the family office as it intersects the life of the family. The outward manifestation of this intersection is often labeled as the ‘client experience.’ Client experience is where these distinct but overlapping cultures connect and are made most visible to one another. If these experiences are powerful and positive, it is a good indication that the cultures are well-attuned to one another. If there are issues or even complacency arising within either culture or between them because of their interaction, then it can indicate cultural misalignment. For that reason, it is important to focus on the qualities of client experience.

For our purposes, the vital client experience stands squarely at the intersection between the cultures of the family office and the family itself. How family offices choose to equip, recognize and address this intersection becomes a key factor that families and family office executives are required

to address. It is the point where the ‘rubber meets the road.’ The family office executive who can ride the wave of the two culture divide is poised to begin to deliver exceptional client experience. A great deal of that capacity has to do with having a crisp and coherent picture of the family culture that is based on objective assessment.

In understanding client experience, it is important to understand ‘brand’ – which can be seen as the sum total of the felt experiences of the clients the family office serves. While there are many definitions of brand, the definition we will use is taken from the seminal work on branding, *The Brand Gap*, by Marty Neumeier, who posits that the brand is “The gut feeling a person has about a product, service or organization.” This means that brand is only partially under your control as the larger portion of your brand lies in the user experience which is, by definition, not controlled. As Neumeier says, “A brand is not what you say it is, but what THEY say it is.” Today we must define

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## SECTION 3: It Comes Together in Client Experience

brands differently. Brands aren't logos like the Nike swoosh, they are sets of cognitive and emotional associations in customers' (and even non-customers') heads. Together, these associations make up a brand's meaning. Brands can be companies, but also people and places. When client experience is aggregated, what emerge is the brand. In short, brands are anything that consumers carry associations about and today, clients and customers control the conversation about brands.

## SECTION 4

# Promises Made, Promises Kept

Even so, what you say does matter in the sense that every commercial enterprise is promising something of presumed value to the market. The market decides, based on its expectations and experience, whether you have delivered on that value promise. From this, the brand experience can be seen as the overlap of your promise to your clients with their experience of your service. When you make promises your firm's culture can't fulfill,

the experience of your clients suffers, your brand declines and with it your business suffers. Likewise, when your client has misaligned expectations with what you are promising, their experience will suffer and your brand and business will suffer as well. Thus the family office brand starts with the point where your promise meets your client's expectations.



When your client has misaligned expectations with what you are promising, their experience will suffer and your brand and business will suffer as well. **Thus the family office brand starts with the point where your promise meets your client's expectations.**

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## SECTION 5

# Promises Kept Are Necessary but Today Are Not Sufficient

Family offices that are designed to deliver 'functional services' (investment advice, wealth transfer, counseling, etc.) may be perceived to be reliable and dependable. Today, these attributes are simply the brand's ante – the cost of entry. They are not sufficient to differentiate the family office brand and secure its spot in its client's hearts and minds, nor is it sufficient to adjudicate between cultural expectation misunderstandings. In the

world of highly personalized and personal service provision, a new understanding of the family and family offices' cultural interplay must be realized to drive emotional connections that strengthen the bond between them. This interplay goes beyond fit or suitability. It has to do with creating something that is perceived to be exceptional. We call this 'brand commitment' and it starts with designing intentional client experiences.

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## SECTION 6

# Client Experience is the New Family Office Branding Imperative

What does a family office do with Neumeier's brand axiom, "The gut feeling a person has about a product, service or organization"? Lou Carbone, world renowned customer experience management thought leader, enhances that notion when he says that "...good, bad or indifferent, every customer has an experience with your company." In the case of the family office, every family member interacting with the family office has a felt experience, each and every time they make contact. Lou further suggests that experiences can be designed but most companies lack the skills, experience, and methodologies to take charge of that design. They struggle with how to manage or intentionally deliver experiences that create highly positive interactions and maximum value for the customer, or, in this case, family member. Businesses are increasingly warming to the idea that the quality of the experience is inextricably linked to building long term loyalty, not in just the quantity of touch points or even in the brilliance of the offered counsel. In short, brands today are not what the brand says it is but rather how, in our case, the family experiences it at the intersection of family and firm cultures.

There are three keys to creating a perpetually powerful family office branded client experience:

1) Identify client delights and disappointments (emotional) and uncover unmet needs (functional)

2) Design specifics and intentional experiences that leverage the brand's story and core competencies

3) Build a client community that shapes the conversations already happening between clients, influencers, and the brand.

These conversations are particularly intimate and therefore exponentially more important in the context of families where your market is a family, these conversations are the lifeblood of the success of the family office. Each of these three keys requires the family office to adopt a cultural attribute around perpetual learning, not just about advances in the services offered to the family, but about the family itself. The family office must recognize that families change and evolve, that their multi-generational nature experiences require them to design interactions

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## SECTION 6: Sustainable Spending Rates for Family Offices

differently. Families are by definition social and thus are influenced by the community-at-large driven by social media and the immediate gratification of information readily available on social webs. They are also driven by their own internal cultural dynamics described above. As families change and evolve, so must the family office in terms of its ability to remain 'tuned in' to the family dynamic and influence the conversations and interactions occurring between family members, between the family and the family office, and between the family and the social community-at-large.

Family office leadership must first deploy effective diagnostics to not only uncover the culture of the

family but also how the family actually experiences the firm's brand today. Understanding the full family office experience requires tapping into each represented generation. After this assessment and bench-marking, the family office must design new experiences for the family that reinforce the firm's brand story to not only define service offerings but define appropriate service boundaries and the accompanying desired emotional connection. Next, as the family office will extend its influence and reach with these designed experiences to all family and external constituencies and stakeholders in order to reinforce the family office's story to social influences at large. This brings us to the level of strategy.

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## SECTION 7

# Setting Leadership Examples

Clarity about the twin cultures, the brand experience of clients and the design and delivery of that experience becomes the strategic focus of the family office executive. In this the leadership of the family office must work effectively with leadership in the family. This means that the governance structures must be brought into the design process, understand the boundaries and endorse them within the family. The family office will no longer be all things to all people, but will do what it does to deliver exceptional experiences within its brand promise. The family may clamor for brand dilution and standing up to the initial resistance to focused and strategic family office efforts will require support from within family leadership. Sometimes this period of transition can be rocky, but if the initial assessments were done well and the design of the core client experience was done collaboratively and with a view to creating emotional connection with the brand promise, then this period can be short. What firm leadership will need in this transition is ‘cover’ from family leaders. This will be more likely to occur if there is both strategic clarity and buy-in on the intentional design parameters.

Even more importantly, the client experience (and the intersection of the two cultures) will require profound attention to the HR practices of the firm. No longer will hiring be based solely on credentials. The ‘right’ people on the bus are rarely the most credentialed. They are the ones who ‘fit’ the well-defined and understood culture of the firm and who are able to deliver exceptional client experiences. These personnel will either be client facing or firm facing. For those who face inward, their clients and the brand experience they manage becomes the primary maintenance effort of firm’s culture. They are charged with and should be evaluated by whether their clients are experiencing high quality touch points which powerfully serve the purposes of the organization. For client facing personnel, they must deliver exceptional client experiences within the defined brand promise boundaries of the firm. This means that they will say “no” often to idiosyncratic requests, but they will be skilled in connecting family members to the resources they need and who will provide an experience that the family member outside of the family office’s clearly defined brand promise. The firm with client experiences as their key strategic outcome will

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## SECTION 7: Setting Leadership Examples

overhaul their employee reviews, compensation structures and management practices. The firm will find its own culture shift in ways that create higher performance on all levels and will proactively shape the cultural overlap between firm and family. In the end, the human resources question is tip of the spear – it what shapes and defines any particular client experience. It is critically important to get the 'right' people on the bus, but you cannot discern who the right people are until you have understood the cultural imperatives of both family and firm, defined the client experience, and created strategic clarity with family governance support.

## Conclusion



In summary, it's worth reviewing the ground we have covered. We believe that human resources lie close to the heart of the success of family offices. But human resources must be approached differently to become a truly strategic advantage.

- First, the family culture and the culture of the family office must be assessed both quantitatively and qualitatively. This assessment must be benchmarked where possible and must contain a deep analysis of core competencies and breakpoints within both the firm and family culture to determine where opportunities lie.

- Second, the client experience must be intentionally designed, deployed and refined. Client experience cannot be left to drift. This involves collaborative work between the leaderships of both the firm and family. It requires the creation of clear boundaries around what is being promised, but extraordinarily high expectations within those boundaries. This will often require political cover in the period of transition as the family adjusts its expectations that the family office cannot be all things to all people but will deliver exceptionally experiences in what it has committed to do. Once deployed, delivering client experience within brand promise requires continual learning and feedback in a process of

continual improvement.

- Third, and perhaps most importantly, the human resources practices must be attuned to the brand promise and the delivery of exceptional client experience. In this sense human resources will be elevated to a strategic level. Hiring will be done with a view to the enhancement of brand experience. People will be managed and reviewed with a view to the experience of the 'clients' (whether they be internal or external to the firm). Leaders of the firm will focus on the felt experiences in both cultures. Key metrics will be developed to measure performance and evaluations and compensation will be geared to creating exceptional experiences in both cultures.

As family office wrestle with the emergent industry trends, they will find that they can equip themselves to tune much more deeply into the twin cultural dynamics in ways that create a helpful and productive interplay with the families they serve. The traditional administrative and compliance oriented role played by the family office's HR leadership in turn will evolve to play a strategic role as well as client experience, and the 'brand of the family office, is enhanced.

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## ABOUT the AUTHOR

# Matt Wesley



Matt catalyzes transformative shifts in family culture. His work with families spans a twenty-eight year career as both an estate planning attorney and family advisor, facilitator and catalyst. He has effectively worked with iconic and billionaire families. His client families have had as many as 90 family members, but many are much smaller. Typically, his clients face significant challenges in adequately preparing for generational transitions of wealth, enterprise or philanthropy. In other cases, client families face challenges that require the rapid development of trust, commitment and capacity. Those who meet Matt quickly recognize that he views the world with uncommon wisdom and is fearless in breaking through the assumptions that bind individual and group performance. His ability to hold multiple perspectives, engage complicated systems on many levels and move with clarity and coherence in the face of core challenges is recognized by the clients he serves and the advisors who serve them. Matt listens deeply, develops trust quickly and then brings real skill and great compassion to generate rapid and sustained change in families. His presence calms anxious systems as he helps people see and act from the simplicity that lies beyond complexity. Matt is eminently well studied, personally grounded and profoundly integrative in his ability to assess and connect threads on both personal and interpersonal levels. He is a sought-after keynote speaker at major conferences and internationally recognized blogger and thought leader. Matt holds a JD from Stanford University and M.Div. from Fuller Theological Seminary.

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## ABOUT the AUTHOR

# Dana Green



Dana consults with business executives on corporate growth and the means to successfully achieve it. He leverages 35+ years of business experience leading and advising clients on corporate growth initiatives: business value acceleration leading to optimized liquidity event planning and execution; complex, high-value business development with a focus on strategic value articulation; buy and sell-side merger and acquisition preparation and execution and enterprise-wide transformational change strategies and methodologies. CEO's and executives seek Dana's experience-grounded guidance for help in addressing serious business challenges in a direct, thought provoking manner. His experience as an M&A Director at Microsoft, as a partner with Dr. John P. Kotter, Harvard Business School Professor emeritus and as an independent consultant for over 15 years has honed Dana's skills as a business acceleration expert. He serves a Fortune 500 client list spanning a wide range of industries and geographies. Dana holds a Bachelor's Degree from Seattle Pacific University in Business and Economics and was appointed Adjunct Professor with Hult International Business School of London in 2012.

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John has over 20 years of experience in line brand management and marketing strategy consulting driving customer insight into winning brand-building innovation. John's extensive experience spans new product development, new ventures, brand rejuvenation, and business turnarounds from early stage companies to large company divisions. Both an analytical thinker and a creative visionary, John's expertise is in developing extraordinary business results using a customer lens. John's consulting experience is diverse and includes technology, entertainment, biopharma, and consumer packaged goods. John earned an M.B.A. from The Amos Tuck School of Business Administration, Dartmouth College. He also is an investor and advisor to TGap Ventures, a venture capital fund specializing in technology and bioscience investing.

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# ABOUT FAMILY OFFICE ASSOCIATION



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Family Office Association is a global community of ultra-high net worth families and their single family offices. We are committed to creating value for each family that we serve; value that grows wealth, strengthens legacy, and unites multiple generations by speaking to shared interests and passions. FOA has the resources to solve your most difficult challenges and help you achieve your collective goals: to invest intelligently, give strategically, and learn exponentially.

FOA is the community leader in serving all the key imperatives for ultra-high net worth families, respecting your privacy but enabling an intimate community of global families like yours. Our organization delivers private education and networking opportunities, proprietary research, and access to salient thought leadership that will interest all generations of your family.