

OPERATIONAL EXCELLENCE: EMPIRICAL INSIGHTS IN GERMAN FAMILY OFFICES

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Abstract

This study explores the operational excellence of German family offices, organizations that exclusively manage the assets of wealthy families. Despite their discretion, family offices play a crucial role in sustainable and long-term asset management. The research utilized a standardized survey with 112 participants, focusing on the internal processes, digitalization, and sustainability within these offices. Findings reveal that while most family offices independently model their processes, there is a significant push towards digitalization and professionalization. However, challenges such as data management and transformation expertise persist. Future research should investigate the pace and effectiveness of these transformations, particularly in digital and sustainable practices.

1. INTRODUCTION

A family office is a distinctive form of governance for family businesses. It is an organization that exclusively oversees the assets of the owner's family, free from conflicts of interest (Canessa et al., 2018, p. 1). It is common for wealthy families and entrepreneurs to act in a discreet manner in order to avoid recognition (Jandt, 2021). The number of single-family offices in Germany is estimated to be between 400 and 500,

while the number of multi-family offices is estimated to be between 45 and 50 (Schaubach, 2019, p. 331).

In Germany, there are 28,396 ultra-high net worth individuals (UHNWI) with assets of more than USD 30 million in 2020, representing a 43% increase between 2015 and 2020. Forecasts indicate that the number of UHNWI will increase by a further 32% by 2025 (Knight Frank Research, 2021, p. 81). Furthermore, if we consider profitable German family businesses with an annual turnover of over one million euros, there are a total of 200,000 such companies. Of these, 70,000 business families represent potential clients for family offices (Brückner, 2016, p. 222). This shows us that there is definitely a relevance for this topic.

In this research, we want to gain deeper insights into the internal processes and operational excellence of family offices. Given that family offices operate very discreetly, the research available to date in this field is very limited.

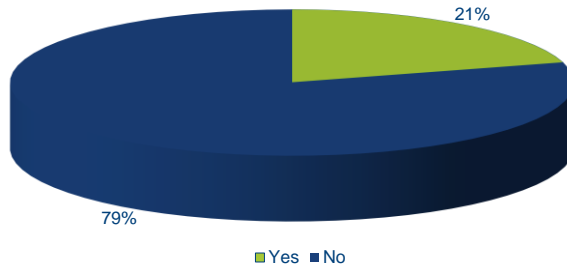
2. METHODOLOGY

In order to gain further insights into the organization and advice offered by shareholders and shareholder families/family offices, a standardized survey in the form of an online questionnaire was conducted (Döring & Bortz, 2016, p. 348). The survey received a considerable level of interest, with a total of 112 participants. While not every individual answered all questions, a high level of engagement was evident. The sample consisted mainly of family offices, with the majority operating in-house. Additionally, we surveyed private equity firms, given their capacity to provide detailed insight through their extensive engagement with entrepreneurial families and family businesses. Triangulation was achieved through conducting interviews with managing directors of family offices.

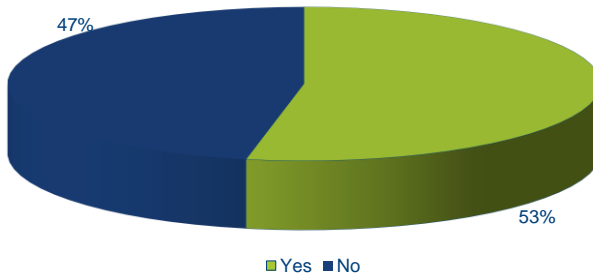
3. EMPIRICAL RESULTS

The review of operational excellence, i.e. the internal functionality of processes is always subject to the tension between the need for as little formalization as possible and the simultaneous need to increase efficiency.

As a first step, we asked to what extent existing processes have already been reviewed or optimized by external organizations. It can be seen that over 3/4 of the family offices have modelled processes completely independently to date.

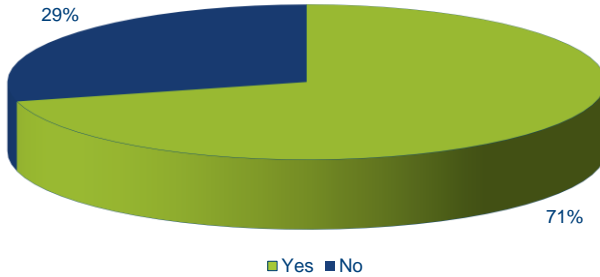
Figure 1. Checking the functionality of processes and mechanisms

As outlined in the introduction, one of the main tasks of family offices is to allocate the owner family’s assets sensibly over the long term. This means that sustainable and long-term investments must be sought that secure the assets in the long term. Only around half of family offices have a standardized process for selecting and evaluating investments. The respondents stated that these processes are expressed in practice through the involvement of external experts, internal asset managers, a catalogue of criteria, or the corresponding investment strategy.

Figure 2. The existence of a standardized process for the selection and evaluation of investments

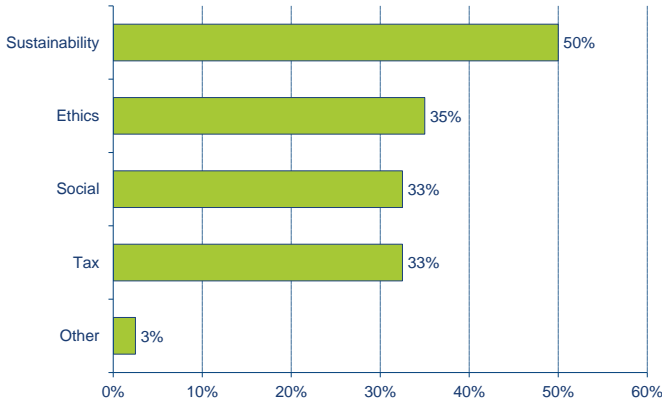
Seventy-one percent of participants have an asset reporting system in place. These take various forms, such as regular/weekly reports, a separate reporting system, or financial plans. In some cases, the respondents also described that this takes place across all asset classes. The reports described are available in the organizations in all forms, in print and digital.

Figure 3. Existence of asset reporting



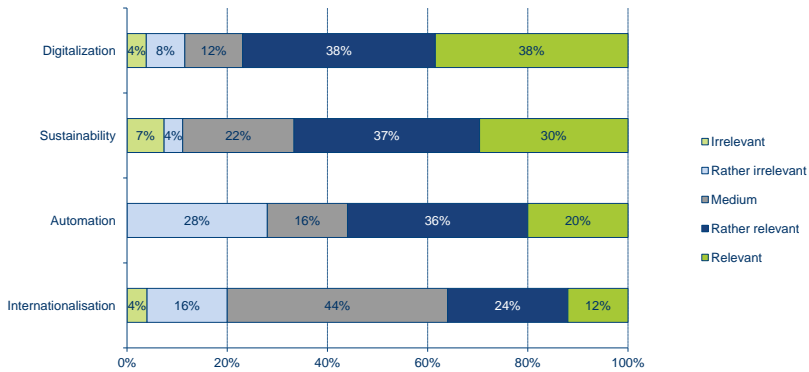
We surveyed various focus topics in the current alignment of processes in family offices. The focus here is on sustainable management. Ethical, social, and tax aspects follow in second place with almost similar relevance. In addition, the subject of “information security” was also raised by the respondents as a currently very relevant topic.

Figure 4. Current focus topics



Finally, we asked which aspects are relevant for the future development of the family office. It can be seen that digitalization is seen as rather relevant or relevant by 76%. Sustainability also continues to be a very relevant aspect, with 67% seeing it as rather relevant or relevant. Automation and internationalization follow some way behind in terms of priority.

Figure 5. Relevance of various aspects to the future direction



For the purpose of triangulation, four additional interviews were conducted with managing directors of family offices. We were able to derive relevant insights from these: Family offices are confronted with a variety of challenges on a day-to-day basis, which they try to translate into internally manageable processes. It was also confirmed to us that — as in the above survey — digitalization plays a very important role in the process optimization of family offices. In practice, however, we were told that this poses massive challenges in terms of data, software tools, and transformation expertise. In general, professionalization, automation, and formalization are constantly being sought, which brings great benefits, especially for the shareholders to be supported.

4. CONCLUSION

Overall, the study showed that most family offices tend to stick to their existing structures and processes and that restructuring and optimization tend to take place selectively and in small steps. Digitalization and sustainability are leading focus topics for family offices. This is not surprising, as these megatrends are currently driving strategic issues for a large number of companies. It will be interesting for future research to find out how family offices are performing in the transformation towards more digitalization and sustainability and how quickly presentable successes can be expected here.

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