FAMILY OFFICE 2030

CHALLENGES AND SUCCESS FACTORS

Friedrichshafen Institute for Family Entrepreneurship

VUFO
Verband unabhängiger Family Offices

zeppelin university

bridging
business culture politics

Friedrichshafen
Institute for
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FAMILY OFFICE 2030

EXECUTIVE SUMMARY

The "Family Office 2030" study takes a look into the future and, in doing so, illuminates the challenges, along with critical success factors, in shaping the future sustainability of family offices. In this study, ten principal areas were identified, which play a significant role in shaping sustainable and successful asset management. The basis for this study are the different perspectives of 79 key individuals with in-depth subject-matter expertise, documented by qualitative interviews and a quantitative survey.

01 Family offices are increasingly combining family values and social influence, in order to shape sustainable visions for the future.

02 Hyper-personalised services in family offices separate them from the competition, and strengthen the bond to the asset holders.

03 Family offices become pioneers in sustainable investment products and actively contribute towards the solution of global challenges.

04 Family offices find an ideal middle ground between innovative investments and trusted strategies, in order to diversify risks.

05 Family offices are resilient towards internal and external crises, and they promote sustainable growth.

06 Flexibility and stability in governance structures enable family offices to fulfil the expectations of their clients.

07 Transformative technologies maximise the benefit for family members and improve the efficiency of family offices.

FAMILY OFFICE 2030

EXECUTIVE SUMMARY

08 Family offices are inspiring the next generation and attracting a wide array of talents to create a common vision for the future.

09 Cooperation between family offices is becoming commonplace, enhancing their efficiency, resilience and long-term success.

10 Decentralised, autonomous and transparent organisational structures in family offices create competitive advantages and enhance the satisfaction of the family members.

The study offers a comprehensive overview of the future of family offices, and demonstrates how they can be adapted to the challenges and opportunities of the years to come, in order to safeguard the long-term success and satisfaction for their clients. We welcome you to take a deep dive into this fascinating analysis and to become inspired by all the ways you can make your asset management fit for the future.

Table of Contents

CONTENTS

List of abbreviations

DAFO	Decentralised autonomous family office
ESG	Environmental, social and governance
FO	Family Office
KI	Artificial Intelligence
MFO	Multi-family office
SEW	Socioemotional wealth
SFO	Single-family office
VuFO	Verband unabhängiger Family Offices (Association of Independent Family Offices in Germany)

List of figures

1

Introduction

INTRODUCTION

Family offices in the year 2030 – an even stronger pro-active approach to asset management as a necessity?

Family offices in the year 2030 will be confronted with a complex and rapidly changing financial landscape (KPMG, 2022). In order to be successful in this environment, there is a need for in-depth understanding of the values and objectives of the family, the introduction of innovative technologies, the ability to remain up to date and to anticipate market trends, along with the commitment to sustainability and social responsibility, as well as the ability to enlist and keep peak performers. By taking these factors into account, family offices can position themselves for success and at the same time help their clients[1] achieve their financial objectives.

Family offices must adapt to the changing rules of the road and offer tailored solutions, innovative investment strategies, robust governance and digital transformation (EY Global, 2022).

In particular, family members expect wealth preservation, seamless asset transfers and the safeguarding of family values. In order to fulfil these expectations, family offices must offer a wide array of services, such as financial planning, tax planning and risk management, philanthropy advice, along with maintaining close client relationships (Rosplock, 2020).

Innovative investment strategies and strategic asset allocation are necessary to achieve above-average, risk-adjusted yields. Family offices are called upon to understand global market trends and macro-economic factors, and to maintain and further develop a strong learning culture.

Effective management and governance call for transparency and responsibility. Family offices need a clear governance framework to avoid conflicts of interest and to uphold the trust of clients.

[1] This study uses the generic masculine form, and in doing so, includes persons of all gender identities and forms. It is used for simplicity's sake, without discrimination. Please read and interpret the text under this premise.

Digital transformation is decisive for efficiency and client experience. Family offices won't be able to ignore advanced technologies like AI, machine learning and blockchain, and continue to invest in cybersecurity to properly safeguard sensitive client data.

By adjusting to the changed asset management landscape and providing customised solutions, innovative investment strategies, robust governance and digital transformation, family offices can maximise value for wealthy families and ensure wealth preservation for future generations.

Family offices will play a key role in the fulfilment of these requirements on the part of entrepreneurial families. This study explores how family offices are expected to evolve by the year 2030 with respect to the general requirements of family members, investment strategies and strategic asset allocation, management and governance, as well as digital transformation.

The fundamentals on which the analysis is based are in total 17 qualitative interviews with selected individuals in various roles in combination with a quantitative survey of 62 persons involved in asset management in family offices.

We want to thank all the participants, who through their candidness, expertise and cooperation contributed towards making this study a success. Special thanks goes to the Verband unabhängiger Family Offices (Association of Independent Family Offices) in Germany, which enabled this study to come to fruition with generous monetary and non-material support.

We wish you inspiring and informative reading, and we look forward to the ongoing dialogue and collaboration with you.

Sincerely,

Clemens Krüger

Dr Christian-Titus Klaiber

Prof Dr Reinhard Prügl

2

Demands on the Family Office 2030

SUCCESS FACTORS

2.1 SUCCESS FACTORS FOR THE FAMILY OFFICE 2030

Success factors for family offices in 2030 will be myriad. Highly qualified staff, efficient team structures and broad-based expertise play a key role. Willingness to change, sustainability and digitalisation are just as important as adventurous, diversified investing.

Independence, discretion and a holistic asset perspective are among the key success factors. Added to this are scalability, cost-effective solutions, digital improvement in efficiency and individual client services. Relevant benchmarks and regular portfolio rebalancing are essential.

Technology and artificial intelligence promote transparency and rational decision-making. Flexibility and openness are decisive, and not only in investments but also in structures and paradigms. A diversified range, involving the family in decision-making processes, strengthens cooperation.

> "In 2030, we will see family offices that are team-oriented, focused on sustainability, headed up by young heirs and patriarchs, from the generation of heirs, who perhaps were never operatively involved [...] in the nucleus [...] and for whom profit maximisation is no longer the main objective.
>
> Interview partner 04, Managing Director, Consulting for Single-Family Offices

Investment success and family cohesiveness are just as significant as individuality, willingness to compromise and client focus. Family offices ought to act with a future-driven perspective, in particular in the area of digitalisation and cryptocurrencies. Finally, family offices ought to be prepared for the next generation and their influence.

The digital transformation, which is primarily being driven by the next generation, ought to be taken into consideration in the years to come. Finally, it is worth emphasizing that the family should always be in the forefront; this focus ought to go hand in hand with making life easier for clients and ensuring the professionalism of the family office.

2.2 VISION STATEMENTS IN FAMILY OFFICES

Single-family and multi-family offices require a clear orientation and objective in order to effectively manage their complex organisational structures. A precise vision statement streamlines objectives, promotes the purpose and direction, supports decisions and provides a competitive advantage.

Orientation of organisational objectives: The vision statement helps in the orientation of organisational objectives by serving as a roadmap and giving family members a common sense of direction. It emphasises team orientation, sustainability and the significance of technology, flexibility and the human factor. A future-driven asset allocation and collaboration with startups are prominent elements.

Decision-making process: Clear visions support family offices towards reaching well-founded decisions. A precise vision ensures that all actions involving assets and long-term objectives will be coherent, and the organisation will be led in the right direction. Family offices serve as partners for entrepreneurs when it comes to profit maximisation and value growth. The vision provides for the family office to work more efficiently within a 10-year period and to double or triple assets with the existing team. Structural changes, such as the integration of a foundation or the expansion of an existing one, are recommended. Timely planning, in particular with respect to succession, and the ramifications of artificial intelligence by 2030, are important topics.

VISION

"

> One of our visions is to find a suitable successor, who will continue to lead the organisation in this manner. The other vision is for several other families, who are classical medium-sized entrepreneurs, to also find their way to us, enabling us to assist them as well. And that is in fact our vision in real terms.
>
> Interview partner 15, Family Officer & Asset Holder, Multi-Family Office

VISION

Increasing meaningfulness and strategic direction: The vision increases meaningfulness and drives strategic direction by motivating employees and family members alike, and showing them how their individual roles contribute to overall success. It inspires employees as well as family members to achieve the objectives of the organisation. A well thought-out vision can promote a feeling of belonging and commitment among various stakeholders of the family office. The visions stated in the study emphasise the significance of adjusting the range of services to the needs of the family and aligning the management of overall wealth assets in ways consistent with the ideas of the family, closely linked to very personal client services and support as independent advisors.

Differentiation: A compelling vision statement helps family offices to set themselves apart from competitors by communicating their unique value proposition and their principles. This promotes the attraction of new clients and investors, along with the loyalty of existing clients.
Networks, trust, flexibility, exchange and dialogue, and an open culture of error are essential elements. Money is seen as an instrument for contributing to the creation of added value in the future for clients, employees and the enterprise, and safeguarding long term asset management and feasibility. A vision of this nature motivates and mobilises family members.

> We have defined a vision, but due to the fact that the family enterprise plays such a predominant role in our lives, we also carry this over to a certain extent into the family office.
>
> Interview partner 09, Family Officer & Asset Holder, Single-Family Office

VISION

Safeguarding sustainability and longevity: A vision can help family offices towards establishing strategies for sustainability and longevity. A vision focusing on sustainability and longevity can ensure that the family office will pursue consistent values that prove their worth over several generations. It can also contribute to promoting a culture of sustainable growth and long-term planning that will help manage the challenges associated with the transfer of the family wealth from one generation to the next.

Promoting innovation and continuous improvement: A strong vision can assist family offices in establishing a culture of innovation and continuous improvement. By placing emphasis on innovation and continuous improvement, the vision can help ensure that the family office will remain open to the latest ideas and approaches, which ultimately can lead to its becoming more efficient and more effective. Such a vision may also help promote a culture of willingness to learn, in which errors are looked upon as learning opportunities, and employees and family members are encouraged to constantly learn new skills and improve their existing skill sets.

> "We need the next generation to believe in us and have to manage to convince them that it makes sense for everyone to stick together here. It doesn't make any sense to force anyone in any way to keep their wealth in the family office. And that's why my vision is to manage to achieve the highest possible level of flexibility, yet also a certain standardisation for our family members.
>
> Interview partner 08, Family Officer & Asset Holder, Single-Family Office

RANGE OF SERVICES

2.3 THE RANGE OF SERVICES OF FAMILY OFFICES

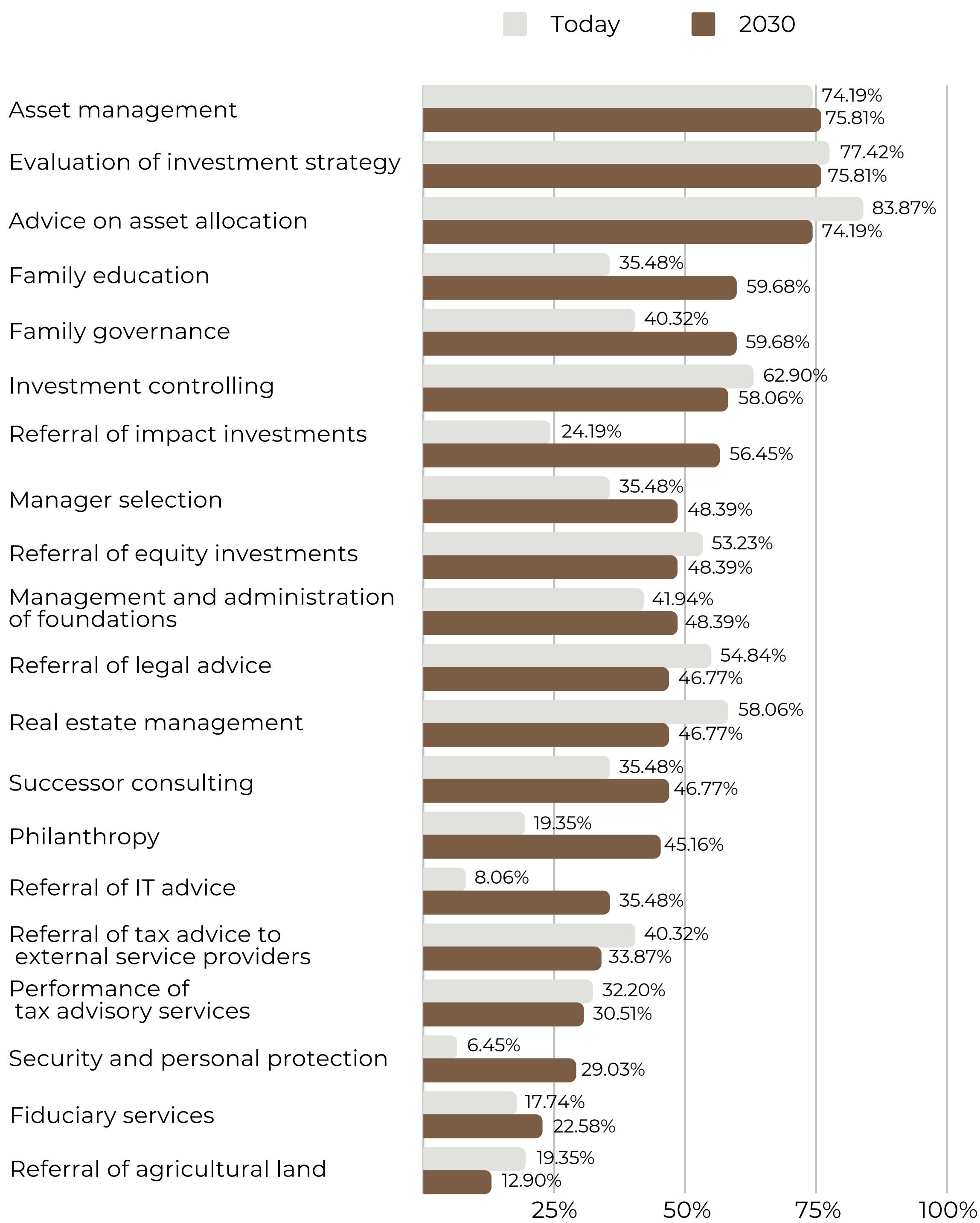
The range of services runs the gamut from asset management to tax planning and estate planning, which are indispensable for the financial stability and success of their clients.

Single-family offices offer personalised services by working closely with family members in order to understand their individual financial objectives and to develop customised investment strategies. Each family has different financial circumstances and objectives, and single-family offices deliver solutions tailored to their individual requirements.

By contrast, multi-family offices feature a wide range of services and access to finance products such as private equity and hedge funds in order to offer their clients a diversified portfolio. This broad-based approach minimises risks and maximises yields. They act as sparring partners in an independent advisory capacity, and offer a holistic asset perspective. Moreover, services such as tax planning and estate planning are essential for effective asset management.
In transition periods or in cases of internal changes, such as the sale of a family enterprise or asset transfers between generations, family offices offer invaluable support and advice. Such transitions can also be emotionally and financially challenging, and family offices can help the process run more smoothly.

Digital technologies are gaining in importance in the services offered by family offices, e.g. in digital reporting. Family offices also invest in external expertise such as law firms and tax accountants in order to supplement their core business. The collaboration with such advisors is seen as an additional service. The range of services is myriad and always geared to the current requirements of the shareholders or family. Family offices are moving away from being a "financial butler" towards becoming an integral linchpin between family, financial and non-financial objectives. One such example of this is a single-family office which is increasingly promoting a networking character within the family and is serving as a marketplace for joint (investment) projects and cooperation opportunities.

RANGE OF SERVICES



Which services do you offer in your family office?

Within the scope of the survey, we conducted a multiple-choice survey of participants as to the range of services provided by their family office.

> "It depends on their orientation, and when it comes to how we position ourselves, it is tremendously important to have a certain intuition for the families. Because families all react very differently. In terms of my families, that is of the ten families, we have ten different philosophies, and they are not all the same. And I believe the major challenge today, and it's difficult for many people, is to address this individual situation. It's not only about the investment strategy or related topics, but also simply a matter of understanding the family.
>
> Interview partner 15, Family Officer & Asset Holder, Multi-Family Office

2.4 DEMANDS ON THE FAMILY OFFICE OF THE FUTURE

DEMANDS

The generational transition will presumably be the most important and dominant demand on family offices in the year 2030. Family offices have to prepare for generational change in a timely manner, involve new generations and take changes in owner interests into account.

This requires the creation of clear governance structures. Increases in family size can also make this change more difficult. Thus, generational change is playing a role not only in family enterprises but also in the family office.

Crises. An additional aspect is the reaction to external factors such as the influence of banks, inflation and various crises. In this, the political reality also plays a role for the family office. That is why adaptability and speed in responding to change will also become a challenge for a family office.

Sustainability. The topic of sustainability is also increasingly gaining relevance. Environmental influences will impact investments, while a sustainable investment strategy can also contribute to wealth preservation and diversification.

Professionalisation, digitalisation, regulations. The professionalisation and digitalisation of processes, along with the observance of regulatory rules, are additional aspects that need to be taken into account. Overall, family offices are confronted with great velocity of change and many challenges.

> "It is my hope that future generations and hopefully a few members of the old guard will actually start thinking about what they still want to be responsible for, and where they will have to assume responsibility if they don't start making changes quickly.
>
> Interview partner 06, Senior Manager, Private Banking

COOPERATION

2.5 COOPERATION OF FAMILY OFFICES

Where some family offices believe that cooperation will intensify, others are of the opinion that competition within family offices prevents cooperation. Joint investments and cooperations in various areas are conceivable, but a structured merger of family offices is looked upon as improbable by many, due to the diverging individual structures.

It is assumed that the younger generation would be more inclined to break up established structures, which would open up opportunities for increased interaction and cooperation. The exchange of knowledge and best practices can lead to a boost in efficiency.

Some interview partners hold the opinion that cooperation among family offices and between family enterprises could be strengthened. The ideal scenario for some family offices is a network of many single-family offices, coming together as a multi single-family office, which through cooperation can exert pressure on vendors. Cooperation of this nature requires a high degree of openness and trust.

> "An exchange of ideas was already desired and promoted for several years, but I think cooperation will increasingly become useful, on the one hand simply to safeguard this knowledge transfer, but also in order to guarantee more efficient cost management, ultimately to also share best practices, because an individual family office can no longer handle this alone.
>
> Interview partner 04, Managing Director, Consulting for Single-Family Offices

It is emphasised that German culture in general is very reserved and discreet, especially against the backdrop that the family offices handle very confidential information. The Anglo-American or Anglo-Saxon realm is more open and more heavily networked. Platforms such as the association of independent family offices can facilitate cooperation, but trust, discretion and competence are decisive for a functioning cooperation.

This cooperation depends primarily on the harmony existing between the families. Club deals in which several families are involved are seldom.

3

Asset Classes & Portfolio Adjustments

3.1 INVESTMENT OBJECTIVES OF FAMILY OFFICES

Family offices, both single-family offices (SFOs) and multi-family offices (MFOs) are characterised by their long-term investment horizon of at least ten years, whereby preservation of capital and stability represent key objectives. In this, the securing of a sufficient liquidity for regular withdrawals by family members also plays a role (Woodson & Marshall, 2021).

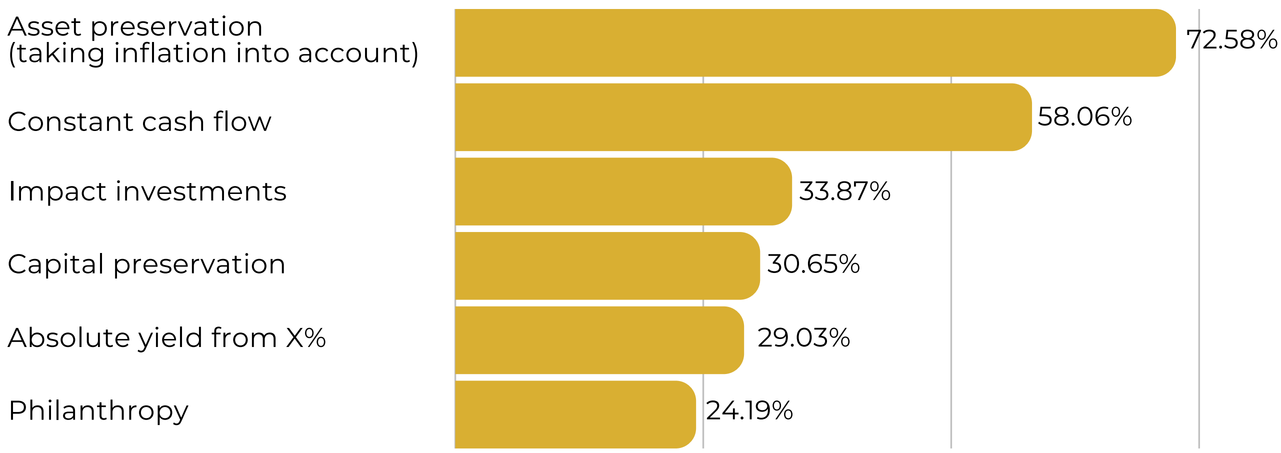


Figure 02: Investment objectives of family offices

In summary, one can say that the investment objectives of single-family offices and multi-family offices are multifaceted and reflect a wide array of factors. Whereas long-term capital preservation remains a central objective, family offices are increasingly concentrating on sustainable investments, and are adjusting their asset allocations strategies accordingly.

The investment decisions are influenced by factors such as generational change, risk tolerance and the desire to bring the investments into alignment with the values of the family. As a general rule, it can be said that family offices normally have a long-term investment horizon, and this is often the only relevant factor. This confirms the statement that investments are normally not made over a term of less than 10 years. Capital preservation and long-term stability are also cited as an important objective. They also have to ensure, however, that there is sufficient liquidity to fulfil the needs of the family members, who require regular withdrawals. Short-term success may be a useful instrument towards achieving certain objectives such as an annual target, especially in volatile markets. Nonetheless, family offices often opt for a long-term, risk-adjusted investment policy.

> It is essential to have clear investment criteria and investment objectives, and the minute something doesn't fit in, then you shouldn't do it, even if you are of the opinion that it is a good opportunity.
>
> Interview partner 08, Family Officer & Asset Holder, Single-Family Office

INVESTMENT OBJECTIVES

Sustainable investment strategies are gaining in significance for family offices, driven by environmental, social and governance issues (ESG) and the desire to align investments according to family values (ter Braak-Forstinger & Selian, 2020). Family offices pursue various investments strategies, whereby diversification across different asset classes and countries provide for additional security and stability. Private equity and securities also play a role in counterbalancing negative yields from cash reserves. In some cases, certain sectors such as weapons or tobacco are excluded for ethical or religious reasons.

A key feature, not only of SFOs but also MFOs, is that there is a long-term investment horizon, which often extends beyond 10 years. This approach is in alignment with the objective of capital preservation and long-term stability, as it enables short-term market fluctuations to be balanced out and long-term yields to be achieved. Both types of family offices, however, must also ensure sufficient liquidity, in order to fulfil the needs of family members, who require regular withdrawals.

Another important aspect is the risk tolerance of SFOs and MFOs, which depends on a wide variety of factors. Whereas some family offices are risk averse, preferring secure investment strategies, others are open to risk, opting for investments promising higher yields. Among the factors that influence risk tolerance are the proximity of the current generation to the original enterprise and the size of the family wealth (Schickinger et al., 2021).

The generational change within family offices can also impact investment strategies. Younger generations may possibly be more inclined to engage in riskier investments, whereas older generations tend to prefer conservative investments. A transparent investment strategy is indispensable for generational change, and strategic asset allocation is becoming ever more important.

Over the past few years, there is increased significance of sustainable investment strategies for SFOs and MFOs. Heightened concern with regard to ESG issues and the desire to bring investments into alignment with the values of the family have led to family offices increasingly focusing on sustainable investments.

INVESTMENT OBJECTIVES

In order to achieve their investment objectives, SFOs and MFOs are relying on diversification across various asset classes and countries. This strategy seeks to offer greater security and stability and to counterbalance negative yields from cash reserves. In general, they invest in private equity and securities; several family offices however, may exclude investments in certain sectors due to religious or ethical reasons.

In summary, one can say that the investment objectives of single-family offices and multi-family offices are multifaceted and reflect a wide array of factors. Whereas long-term capital preservation remains a central objective, family offices are increasingly concentrating on sustainable investments, and adjusting their asset allocations strategies accordingly. The investment decisions are influenced by factors such as generational change, risk tolerance and the desire to bring the investments into alignment with the values of the family.

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A transparent investment strategy is indispensable for generational change, and strategic asset allocation is becoming ever more important. Whereas earlier generations tended to prefer risk-averse investments, the new generations are often more likely to make higher-risk investments. In general, it can be said that the readiness to assume risk in family offices must be viewed individually.

INVESTMENT OBJECTIVES

Family offices deploy an array of investment strategies. Especially the diversification across various asset classes and countries is of great relevance for many family offices. This is intended to provide greater security and stability. They generally invest also in private equity capital and securities in order to counterbalance negative yields from cash reserves. Some family offices also exclude investments in certain sectors such as weapons and tobacco due to religious or ethical reasons.

In conclusion, one can say that the investment objectives of family offices continue to be diversified, reflecting a wide array of factors. Whereas long-term capital preservation remains a central objective, family offices increasingly rely on sustainable investments, and are adjusting their asset allocations strategies accordingly.
Investment decisions are influenced by factors such as the generational change, willingness to assume risk and the desire to bring the investments into alignment with the values of the family.

SUSTAINABILITY

3.2 SUSTAINABILITY IN FAMILY OFFICES

In the context of the family office, the topic of sustainability assumes importance for a majority of the family offices surveyed. Sustainable investment strategies are becoming ever more relevant, and the implementation of new regulations concerning sustainability, such as those of the European Union, will influence the investments. CO2 neutrality will also take on vital significance in the future; this can also be achieved by adding forest management, for example, as a new asset class or shifting family meetings into the digital realm. Sustainable investments also offer a yield opportunity, whereby it still remains to be seen whether the yield expectation will change intergenerationally.

For the next generation in family offices, profit maximisation will presumably no longer function as the main objective, because an overall societal context must also be provided.

Participation in decarbonisation, due diligence and the inclusion of sustainability criteria are factors that ought to be taken into account in a sustainable investment process. ESG criteria play a significant role in this in order to make sustainability measurable. There is also criticism, however, that there is still no consensus on a definition of ESG criteria, which makes this situation more difficult.

"There are few family offices that have subscribed 100% to the topic of sustainability, but I know that it's on the agenda, and employees are undertaking projects on the topic of sustainability in order not to ignore this trend or topic.

Interview partner 07, Vice President Family Office, Private Banking

SUSTAINABILITY

Some family offices seek to be 100% sustainable, and there are various approaches to this topic. Clear requirements for sustainability do not exist, but there are recognizable tendencies and efforts to be sustainable.

Even today, sustainability is still seen less as an opportunity and more as a cost factor. The next generation is increasingly committed to this topic and thus also to changing investment strategies. Impact investing and sustainability are major trends, and in many family offices there is greater emphasis placed on this topic. Nonetheless, some also report that shareholders still do not see the vital need for sustainability.

The selection of sustainable products and the screening of investments are crucial factors in taking sustainability into account in the investment strategy.

ASSET CLASES

3.3 ASSET CLASSES

Family offices typically invest in a variety of asset classes, in order to achieve broad diversification and risk distribution. The selection of asset classes depends on various factors, e.g. the investment objectives, the risk profile and the individual risk tolerance of the respective family.

Family offices are known to build up diversified portfolios in order to maintain and increase the wealth of the family over the long term. The relevant asset classes may change over time depending on market trends, the investment horizon and the preferences of the family.

Bonds: Bonds serve the purpose of stabilising the portfolio and reducing risk. Family offices often invest in a variety of bonds, including government bonds, corporate bonds, emerging market bonds and high-yield bonds.

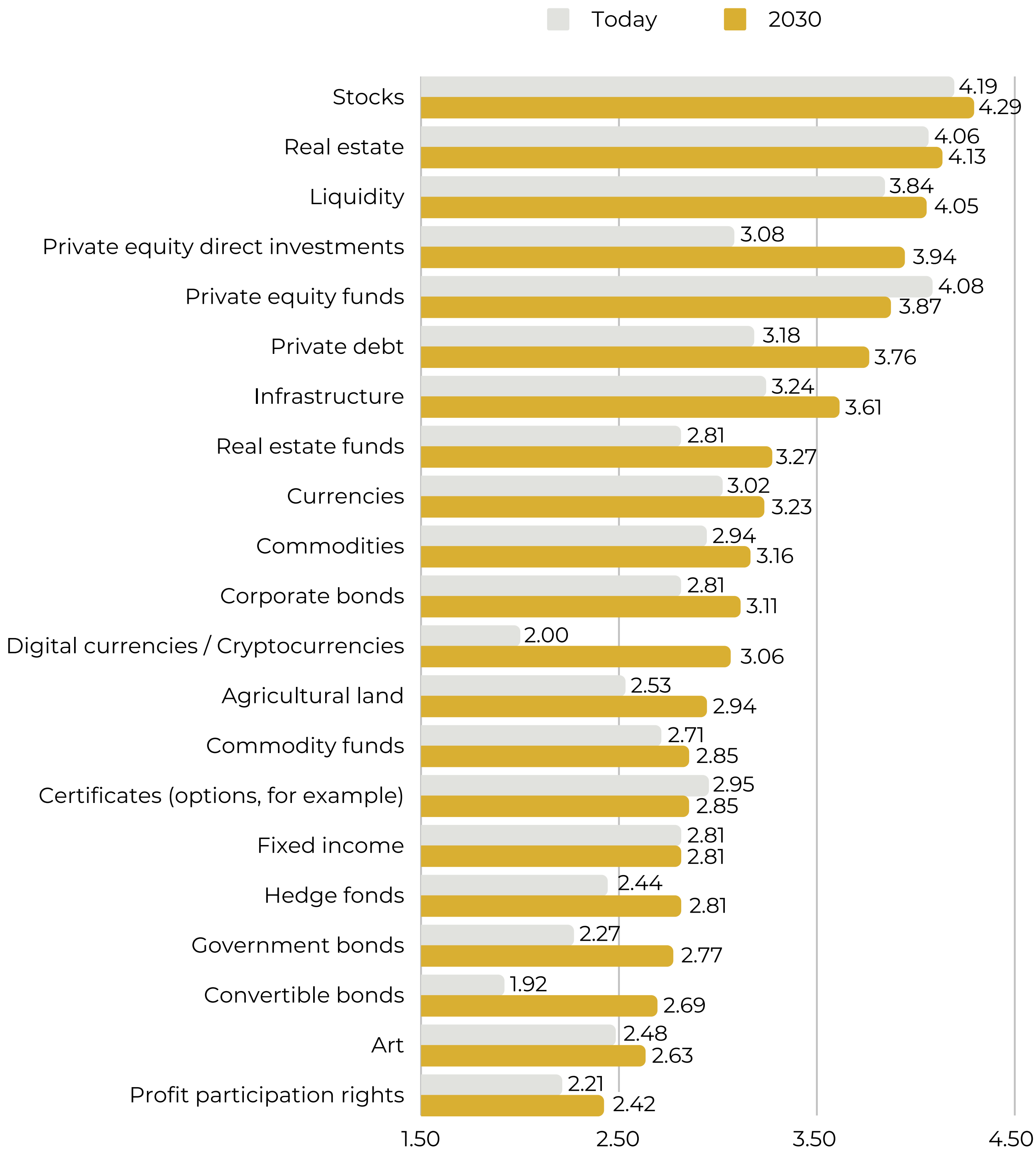
Real estate: Direct investments in residential and commercial properties and also indirect investments via real estate funds and real estate investment trusts (REITs) enable family offices to generate revenues from rental income and offer potential for appreciation. Some interview partners make the assumption in their strategic asset allocation that real estate could lose attractiveness based on the regulatory environment and market dynamics.

Private equity: Family offices invest in equity capital funds or directly in companies that are not listed on the stock exchange. In fact, there is a trend moving away from private equity funds towards direct investments. We can also see an additional trend of increasing value-added depth of the family offices in this area. More and more, areas of expertise for direct investments are being built up within family offices.

Hedge funds: This investment class offers diversified investment strategies intended to achieve yields independent of the broader market conditions.

Commodities: Investments in commodities such as gold, silver, oil and agricultural products offer diversification and a hedge against inflation.

ASSET CLASSES



How do you rate the importance of the following asset classes?

Within the scope of the survey, the participants rated the importance of selected asset classes on a Likert scale (1 = not important; 5 = very important), both as at the current day and for the year 2030.

ASSET CLASSES

Infrastructure: Family offices may invest in infrastructure projects such as roads, airports, energy production or telecommunication. Looking ahead into the future, some interview partners consider the buildup of a German or European hydrogen infrastructure to be an attractive investment.

By the year 2030, the following asset classes could gain in relevance:

Sustainable and socially responsible investments: Because ESG criteria are becoming ever more important, family offices could increasingly invest in companies and projects that take ecological, social and governance factors into account. The increasing importance of social and ecological impacts could lead to family offices investing in projects that bring about positive societal changes.

Cryptocurrencies and blockchain technology: The advancement of digitalisation and the growing interest in digital assets could lead to family offices increasingly investing in cryptocurrencies and blockchain technology.

Artificial intelligence and technology startups: The increasing influence of AI and technology on industry could prompt family offices to increasingly invest in these areas.

Newly industrializing countries: Family offices could increasingly invest in newly industrializing countries in order to benefit from their economic growth and up-and-coming markets.

Venture capital: Private equity and venture capital have been gaining in importance over the past few years, offering family offices the opportunity to invest in promising startups and high-growth companies.

Hedge funds: Hedge funds are an additional important asset class for family offices. They offer access to various trading strategies and can insulate the portfolio against market fluctuations.

ASSET CLASSES

It holds true for family offices that real estate properties, private equity and securities are still considered the most important asset classes. Nonetheless, a significant increase in the trend towards diversification can be observed. Family offices are exploring new niches and non-liquid asset classes in order to achieve higher yields, and some are investing in digital assets such as blockchain. A long-term investment approach and global diversification remain of primary importance for family offices.

With respect to asset classes that are waning in importance, the interviews showed no homogeneous trend: Thus, some people assume that real estate properties are losing in importance in many family offices, as the market is oversaturated and political restrictions may possibly increase.

At the same time, venture capital firms are shunned by some family offices, as the investments are mostly made via funds. A frequent response was that bonds are considered unattractive in many family offices, as they do not offer high yields.

It is also assumed that stocks and shares are losing in attractiveness due to their volatility. Hedge funds are considered insecure, and the transparency is criticised. Most family offices stay away from government bonds, and no longer look upon the portfolio as functional. Some family offices are of the opinion that fixed interest rates are less important, whereas others believe that given a focus on liquidity, everything involving government bonds and securities has already diminished in importance. All in all, there is a trend away from traditional asset classes towards alternative investments promising higher yields. The reasons for the decline in importance vary from family office to family office, however, and are often very individual.

In summary, one can say that cryptocurrencies and blockchain technology could gain in importance as new asset classes in some family offices. Yet there are several families indeed who take a critical view towards these forms of investments and consider them too risky. Commodities, carbon credits and digital art are also taken into consideration by some families as potentially new asset classes. The asset class cited most often is cryptocurrency. It remains to be seen, however, what role this will play in the investment strategies of family offices.

4

Management & Governance

4.1 GOVERNANCE MECHANISMS

The survey results (Figure 05, next page) demonstrate that family offices up to the year 2030 will have increased interest in governance mechanisms that contribute towards promoting and supporting ethical and social responsibility. Thus, in the future, one can expect a higher value being placed on corporate social responsibility, continuing shareholder education / family education and codified family values compared to today.

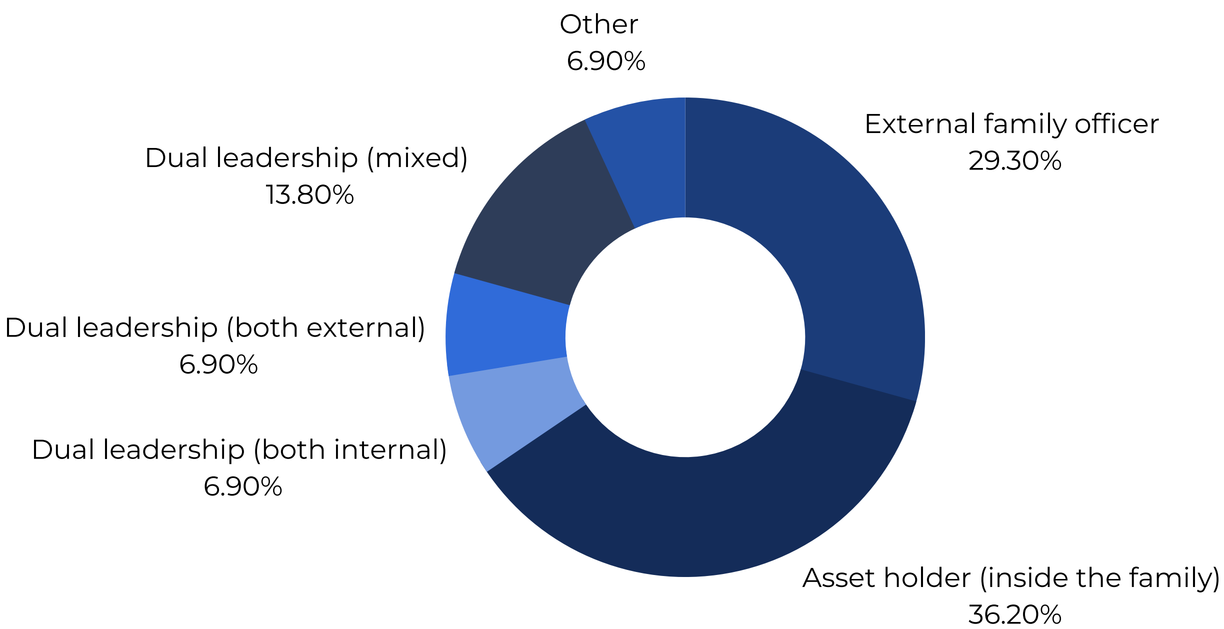


Figure 04: How is the family office managed?

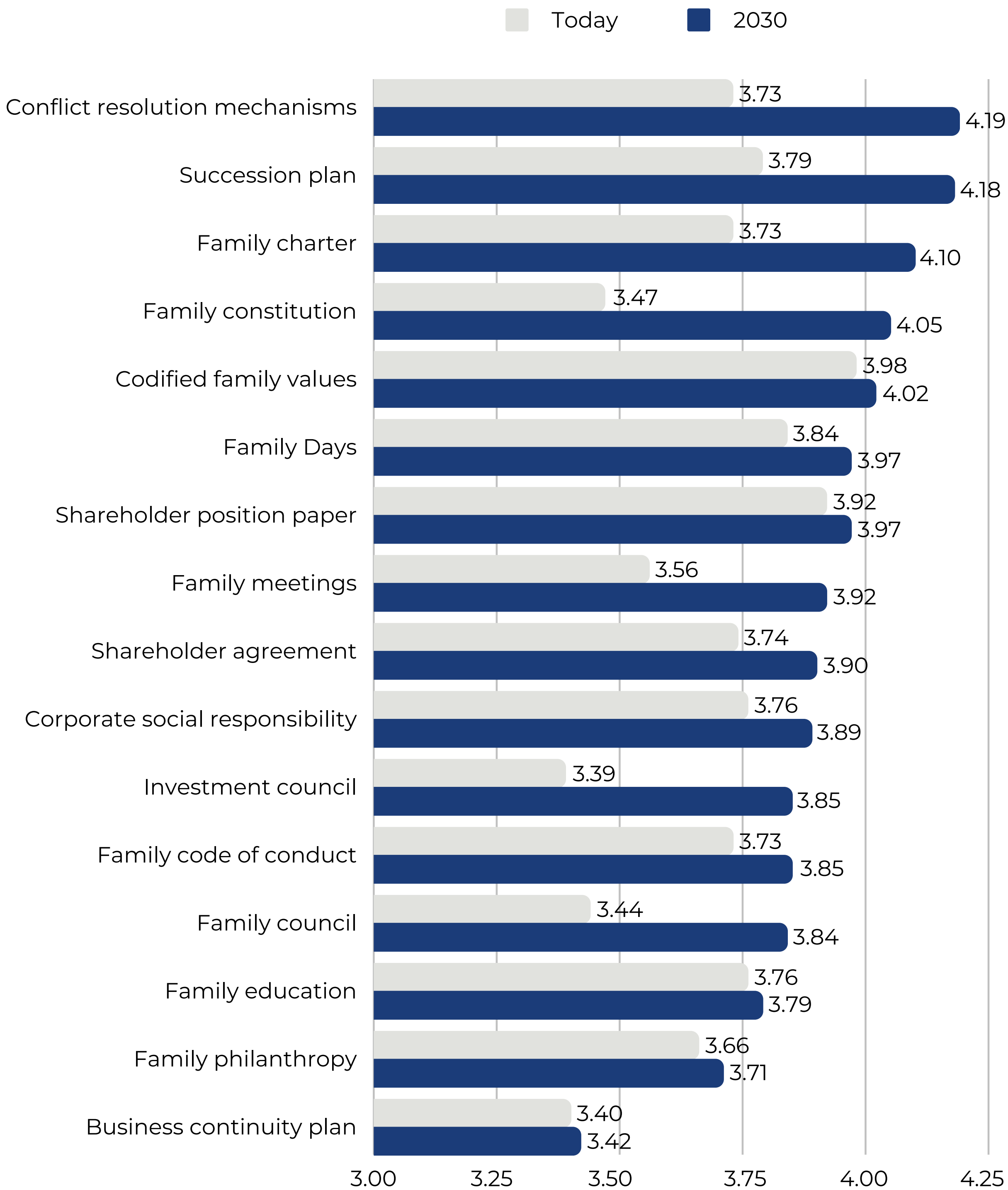
Investment council and succession planning also remain important governance mechanisms, yet compared to today they are bound to increase in relevance. An interesting trend is also the fact that business continuity plans and shareholder agreements will hardly lose their significance. This shows that family offices have recognised the importance of clear-cut agreements and safeguarding continuity in times of crisis.

Family philanthropy and family councils, on the other hand, will be less significant in the year 2030 then today. This can be attributed to increased importance of governance mechanisms which contribute to the creation of stable family structures, to the promotion of family values and the avoidance of conflicts.

The results also showed that family constitutions, family codes of conduct, family charters and conflict resolution mechanisms will maintain their importance up to the year 2030. These mechanisms can help to stipulate clear guidelines and rules of conduct for family members and employees, in order to thus prevent potential conflicts.

Overall, the results point out the fact that family offices have developed an increased awareness towards the significance of promoting ethics, sustainability and responsibility in their business and in their interaction with the family. The increased significance of governance mechanisms in this context will play a role in keeping the family enterprise successful over the long term and avoid potential conflicts.

4.1 GOVERNANCE MECHANISMS



How do you assess the importance of the following governance mechanisms?

Within the scope of the survey, the participants rated the importance of selected governance mechanisms on a Likert scale (1 = not important; 5 = very important), both as at the current day and for the year 2030.

GOVERNANCE MECHANISMS

With respect to governance mechanisms, the qualitative interviews indicate that the governance of family offices is being structured in an increasingly complex manner. Structures need to stay lean, cost effective and efficient, yet allow for the family members to be increasingly involved in the processes. In the future, external staff will be brought in for specific investment strategies that do not belong to the everyday business of in-house employees, such as private equity funds.

Another success factor often stated is the will to change and adapt to the entrepreneurial environment. The relevance of support by tax consultants will also increase. One suggestion for optimising asset management in 2030 consists of contracting out the investment committee responsible for decisions in the area of investments and integrating it into portfolio management. This could be an option for safeguarding the best possible asset management. In case the relevant expertise is not available in-house, contracting it out can be taken into consideration. Such a measure could enhance the chances for successful investments and minimise risks. Overall, this could lead to more effective asset management (FO_01).

Another interview partner is of the viewpoint that effective client support can be guaranteed through small but well-functioning teams. In doing so, it is important to take the processes into consideration in order to actively attend to the client's key topics and to address problems in a forward-looking manner. Scalable products such as services can contribute to safeguarding effective independence of the family office. It is of great importance to balance interests between the family office and the client and to clearly define responsibilities, as it involves a very intricate business with individual requirements. Regulatory rules may lead to restrictions that need to be taken into account.

GOVERNANCE MECHANISMS

The investment committee determines the direction for the family office and how it is to be implemented theoretically. The actual decisions as to the fine-tuning of investment decisions, for example, lie within the responsibility of the client advisors, however. Overall, it is important to pursue a clear strategy in order to safeguard a successful asset management (FO_02). The chains of decision making are often shorter than in other company structures as the family is involved in the decisions. In this, the family office must reflect the corporate functions, for which several teams are necessary (e.g. finance, acquisition and production team) (FO_03).

A set of rules or code of values that is written down is also of great significance towards building up and managing an effective and successful family office. There has been a trend lately to change the structures of family offices and create foundations as an alternative. In this context, clear sets of rules and guidelines are of special importance in order to ensure the family office's long-term ability to function and continue, especially with respect to topics concerning succession. Because only through clear and transparent orientation can the values and objectives of the family office be preserved over the long term (FO_04). It is important however that advisors having specialised knowledge and experience be involved in decisions in order to ensure that the best possible decisions are reached (FO_07). An expert body considering forward-looking topics could help the family office in the future towards identifying new possibilities and opportunities. Such a body could deal with topics such as ESG, for example, and help the family office to develop a sustainable investment strategy (FO_08).

In addition to the set of rules, a clear separation between the compliance functions ought to also be an important aspect in order to safeguard effective and successful asset management. Regulations for archiving are of great importance in this regard to ensure compliance with the legal provisions. In order to be successful over the long term it is of special relevance to engender greater company loyalty among external staff and to build up an internal organisation i.e. via employee incentive schemes.

GOVERNANCE MECHANISMS

In the process, employees gain in importance, especially in a very heterogeneous organisation like a family office, as they are not excluded from the decisions made at the family management level and should be informed as to the rationales for decisions (FO_05).

For companies with only one family office shareholder, structured communication with the family members is an important factor. In order to enable regular updates and exchange of information, single family office shareholder meetings are held four times a year. In addition, an information meeting is held almost each month in order to provide information on the latest developments and projects. In order to keep family members who cannot be present up to date, shared notes are made available. Thus, all shareholders can access important information at all times. In addition, there is a balance sheet committee responsible for auditing the financial reports (FO_09).

In the years to come, a trend is also emerging: The development of a family code of conduct with guidelines and guiding ideas. The objective is to do away with tribal thinking, and to see the family as a unit and also to act as such. A family should not be divided up into four tribes, rather it should act as one cohesive whole. This can lead to decisions being reached more quickly and effectively.

In the case of investment decisions, all shareholders must decide together. For this purpose, there are shareholder meetings four to five times a year, at which important topics are voted on. Operative daily matters, on the other hand, are managed by the family office. Overall it is important that there are clear structures and responsibilities in the family enterprise in order to ensure successful cooperation (FO_10). In addition, it is important to define clear structures and responsibilities in order to avoid conflicts and to reach effective decisions. An ownership strategy and a conflict management system can contribute to the enterprise's long-term success. Through clear separation of operative and strategic tasks, it is also ensured that family members will not receive any inappropriate advantages (FO_13). To avoid conflicts between the generations it is of special importance for a family office that the next generation be strongly involved. To this end, for example special seminars and training sessions can be offered in order to prepare young family members for their future duties (FO_15).

4.2 IDENTIFICATION WITH THE FAMILY OFFICE

These days, there is ever greater focus of discussion on the question as to the justification for family enterprises. In order to preserve their continuity and stability, it is important to safeguard the existing social, economic and cultural heritage (socioemotional wealth, SEW) through identification with the family offices. In particular, in the transgenerational SEW, the family office plays a decisive rule, as it is not only a business enterprise but also part of the family and thus an important factor for family cohesiveness. The characteristic of the family office is decisively dependent on the origin of the family enterprise. If the enterprise is still owned by the family, the family members almost exclusively identify through the company. In this context, a family code of conduct can serve as a stable foundation for identification. Nonetheless, there are no special insights as to how the importance of family offices will continue to develop for the year 2030. Influencing factors such as technological developments, globalisation and societal changes could however lead, in the future, to family offices having to newly define their justification for being.

Independent of this, the family cohesiveness remains a primary focus of family offices and is an important factor in their stability and success. Through the preservation of the SEW and the identification with the family offices, the family can stay true to its heritage and secure the future of the enterprise. One interview revealed that there is a high level of identification with the enterprise if this is successful. The family office is often the anchor point of the family. Should disputes occur within the entrepreneurial family nonetheless, naturally a separation of the family office can also occur (FO_03).

he founders of family enterprises often have a clear vision and a mission for the company, and their vision and their mission are continued by family members and also by the next generations. This engenders strong identification with the family enterprise. If an enterprise is sold, however, or one generation is no longer operatively active and responsible for preserving the wealth, the identification with the family office can increase.
This has to do with the fact that the family frequently has emotional ties to the enterprise and views it as being part of their inheritance. Also in this case, the family office can serve as an anchor point for the family and play an important role in the identification of the family. Overall, for this interview partner, identification with the family enterprise depends on various factors such as the history of the enterprise, the type of business and the size of the enterprise.

A brief aside

Socioemotional wealth (SEW) is a theoretical concept, which seeks to measure the non-material value of emotional and social aspects such as family unity, prestige and cultural heritage in family enterprises (Berrone et al., 2012). Family offices utilise Socioemotional Wealth to develop long-term objectives and strategies for asset management above and beyond purely financial aspects, aligned with the values and cohesiveness of the family. This serves to improve the family's well-being and quality of life and at the same time maintaining business continuity and the family wealth for future generations.

IDENTIFICATION

This identification can also change over the course of time, depending on how the enterprise develops and how the family interacts with the enterprise (FO_04). The identification with a family enterprise can also manifest itself through commitment of individual persons. It is often certain family members who take over the leadership of the enterprise and bear the responsibility for decisions. Other family members may tend to take on an observer role and participate less actively in the enterprise. A strong presence of the family can also provide for clear identification of the family with their enterprise (FO_06).

Another interview partner spoke of the relevance of spelling out a family code of conduct the individual creation of which is linked to the individual values of the family and the company (FO_07). Identification with the family enterprise can also be strengthened by the fact that the company not only conducts its actual business but also encompasses other areas. For instance, private residential properties can be managed via the family enterprise, which further strengthens the identification of the family with the company.

> "The identification or the identity comes via the family enterprise.
>
> Interview partner 09, Family Officer & Asset Holder,
> Single Family Office

With some family members, identification is frequently associated with the history and tradition of the company, whereas younger family members tend to be bound to the company through investments or upcoming events. That is why it is important to also create incentives for young family members and to involve them actively in the company in order to enhance their identification with the family enterprise and to secure the succession in the company (FO_10). It can also be observed that the identification of the family with the family name and the family tradition often manifests itself more clearly than the identification with the specific family enterprise. It should be emphasised, however, that strong identification with the family enterprise can be an important foundation for the success of the company. A clear brand positioning and strong identification of the employees and clients with the company can increase client loyalty and trust in the company (FO_12).

4.3 GENERATIONAL TRANSITION

GENERATIONAL TRANSITION

The transition to the next generation is an important step in every family enterprise, and it determines the success that the company will have in the future. The perspective towards the generational transition has changed over the course of time. Whereas the pioneer generation after the Second World War sought a high degree of economic and political security, the 1960s, 1970s and 1980s were characterised by emancipation, inflation and a cost-oriented approach (FO_03). Younger people often seek an entrepreneurial basis or social and societal responsibility that goes along with running a company. Families that have strong cohesiveness and interact respectfully with one another can have a positive impact on asset development. Measures for strengthening cohesiveness can include family get-togethers, as well as joint social and regional projects (FO_03).

The various generations have different views and values, for instance, with respect to financial decisions. The risks in this example are perceived differently; the younger generation is often more open to risk and has better access to and an ability to handle the latest technologies. It also prefers to invest in the area of venture capital. The intergenerational cooperation in family enterprises can sometimes be difficult, in particular when it comes to expanding the individual degree of standardisation and flexibility of the family enterprise. In this respect, generational transitions may lead to conflicts of interest, and rigid leadership roles can be reversed as a consequence.

The transition to the next generation, however, does not only mean a change of persons but also an evolution in the structure of the family enterprise. Due to advancing technologies, new opportunities arise for promoting and structuring the cooperation among generations. Here it can be useful to rely on new tools and technologies in order to facilitate intergenerational cooperation and improve communication.

GENERATIONAL TRANSITION

An important step for the successful change of generations is an open and transparent communication among the generations. It is important that all stakeholders can voice their perspectives and interests and jointly seek solutions. A clear definition of roles and responsibilities can also contribute to reducing conflicts of interest and guarantee smooth collaboration. An additional point to be considered in the transition to the next generation is the relationship to the company's clients. Maintaining an optimal client relationship over several generations is a tremendous challenge for family enterprises. In order to ensure that clients and their families also receive excellent support in the future, companies frequently rely on the collaboration of at least two client advisors or an advisor team. In this way, it can be ensured that long term client support can be guaranteed, even if one of the advisors goes into retirement or leaves the company for other reasons.

In order to safeguard the continuity in the client relationship, the generational transitions must also be taken into consideration in selecting the team of advisors. It is important that the clients are also able to identify with the new advisors and build up a basis of trust. Here, not only professional competencies but also personal characteristics play a vital role (FO_02). An important challenge for family enterprises and family offices is the involvement of the next generation. The younger family members often lack the necessary entrepreneurial and strategic capabilities, along with practical experience in the company. Targeted involvement in the family enterprise or the family office is intended to ameliorate this situation.

"Through generational succession, the number of persons who have an ownership role so to speak becomes larger in most families. Along with this comes the need for rules of the road at the level of owners amongst themselves.

Interview partner 03, Partner Segment Family Office, Audit firm

GENERATIONAL TRANSITION

Generational conflicts can be prevented by deploying a single-family office. In this context, a rule can be implemented, for example, that the next generation must work outside the company for a certain period of time in order to gain experience in other areas. Workshops or training for younger family members can also be helpful in preparing them for roles as future owners or decision makers. Another vital factor is the development of a family strategy that defines the joint path for the future and thus also facilitates the involvement of the next generation in decision-making processes.

Similarly, it may be useful to appoint a family member as family officer who represents the interests of the next generation and maintains a close working relationship with the family office (FO_15).

> "Clear rules and regulations for the long-term functioning and continuation of a family office are certainly important, especially where succession issues are involved.
>
> Interview partner 04, Managing Director, Consulting for Single Family Offices

4.4 COMMITMENT OF SHAREHOLDERS

The emotional bond and commitment of the shareholders to the company and its industry plays an important role in investment decisions in the family office. Often, this commitment is based on the family's history and long-standing connection to the industry. The emotional bond of the family to the family office is particularly strong, as long as a family business is still owned by the family and thus serves as a focal point for identification and loyalty. For this reason, there is a strong interest within the family to continue and preserve the company's underlying values and traditions in the future. The family often views the business not only as an economic asset, but as a part of their identity and history. This emotional bond is an important factor in the stability of the FO and also influences the decisions made with regard to the future development of the company.

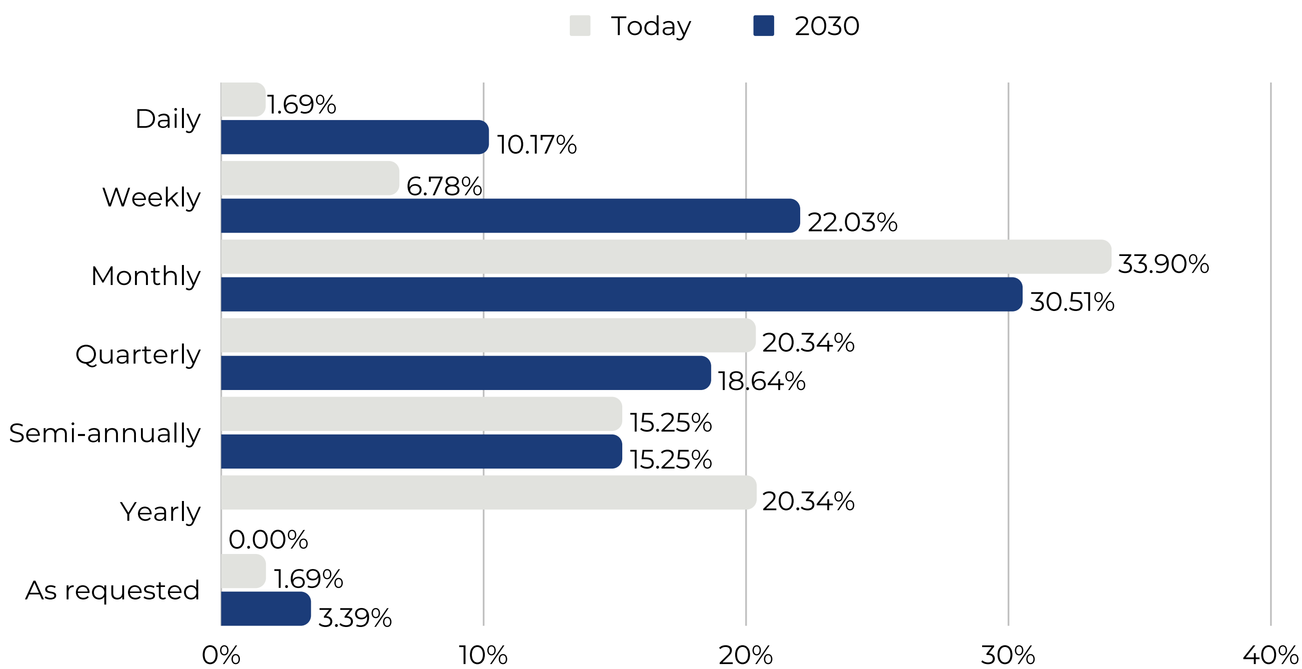


Figure 06: Communication between a family office and asset holders

The survey assessed the intensity of communication between the family office and the asset holders. Here, the question centred on how often the family office's results are communicated to the asset holders. The data shows that communication is intensifying: The majority of the performance reports continue to take place on a monthly basis. By 2030, however, reporting is increasingly expected to become weekly or daily. This more intensive communication can support the commitment of shareholders and asset holders to the family office.

COMMITMENT OF SHAREHOLDERS

A high level of emotional attachment can mean that decisions are not made solely on the basis of economic factors, but also on the basis of family values and beliefs. Addressing these factors can be an important foundation for developing a clear family strategy and long-term orientation for the family enterprise. Family cohesion is of great importance in this respect; it must be consistently strengthened and internalised. Get-togethers and internal family events such as Christmas dinners, monthly appointments or meetings can be beneficial in this regard. Also for quarterly and annual reports, the family should come together and share ideas to prevent conflicts (FO_04).

Over the course of time, however, family relationships may change, and thus also the commitment to the family enterprise. Especially when there are multiple generations, it can be difficult to maintain emotional bonds, for example, due to separate family assets. To overcome this challenge, it is important to create a clear structure and organisation within the family. A single-family office can play a central role in this process by acting as an asset management company to support the family in managing and controlling the family wealth. The next generation should also be involved in planning at an early stage to foster long-term commitment to the family enterprise (FO_02).

Another interviewee also believes that internal family meetings are of key importance. In order to further promote this cohesion and to bring in the younger generations and spouses, Family Days are planned in this family enterprise in the future.

Conflicts are inevitable and can be particularly complex in family enterprises. To solve them, clear and neutral communication as well as an open approach to problems are very important. Often, conflicts are resolved through the family officer and strategic family directors. A clear division of responsibilities within the family and the family office, a regular check-up and a trainee program for the next generation to gain insights into the FO and the companies can also help to minimise conflicts and strengthen cohesion (FO_10).

THE IDEAL FAMILY OFFICER

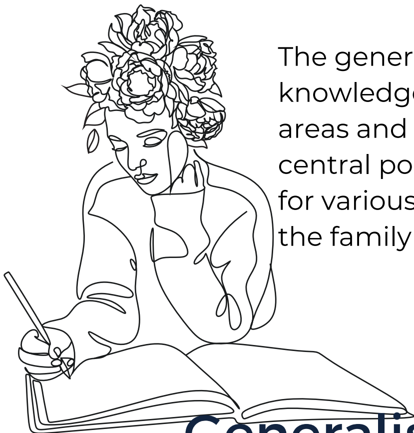
4.5 THE IDEAL FAMILY OFFICER

A family officer is a key point of contact for families managing large assets. Family officers have various duties, ranging from asset management to small legal tasks and advice on family matters. An important element of their job is to act as a liaison between the family and the portfolio. Family officers have extensive expertise on the investment side and are capable of assisting the family in planning and implementing its investment strategy. In their role, they are at the same time investment banker, psychologist or mediator, which requires a high degree of loyalty to the family and an ability to create harmony.

A good family officer also shows interest in the next generation, as they represent the future of the wealth and the business. By involving the next generation, family officers can discover new investment opportunities while ensuring that assets are preserved into the future. Openness, a human touch, trust and a strong network, especially with lawyers and tax advisors, are important qualities that they should possess (FO_09). It is essential that they are responsive to the family and understand their needs, desires and objectives. This also includes an interest in the next generation, as they often play an important role in the continuity of the wealth. Building a good relationship with young family members can open up new investment opportunities. Digitalisation and future developments should also be the focus of the family officer in order to successfully maintain and increase family wealth (FO_07).

> "The [family officer] has a wealth of experience [...] to draw on and is accordingly [...] broadly positioned in terms of overall wealth expertise. He possesses great integrity. He is a very sensitive, empathetic person with a positive mindset. What do I mean by that? He adapts to the client and his individual situation, knows the point where he has to hold back and where he has to stand his ground very clearly, and is certainly from his personality structure [...] an optimist without being too optimistic and with this optimism he can inspire and motivate others for a variety of topics.
>
> Interview partner 17, Managing Director, Multi-Family Office

THE IDEAL FAMILY OFFICER

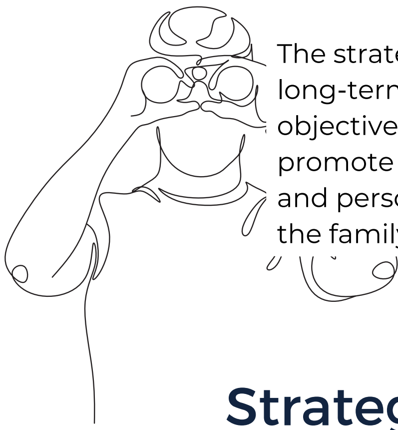


The generalist has broad knowledge in a variety of areas and can serve as a central point of contact for various tasks within the family office.

Generalist

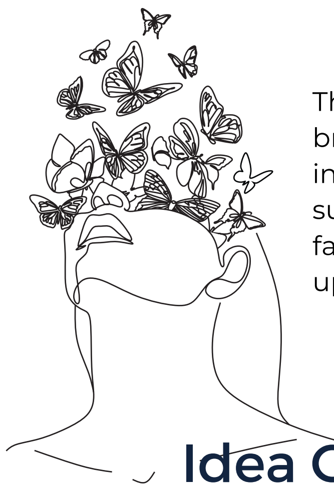
The transformation agent promotes change and innovation within the family office to improve the structures and continuously optimise processes.

Transformation Agent



The strategist develops long-term plans and objectives to best promote the financial and personal interests of the family.

Strategist

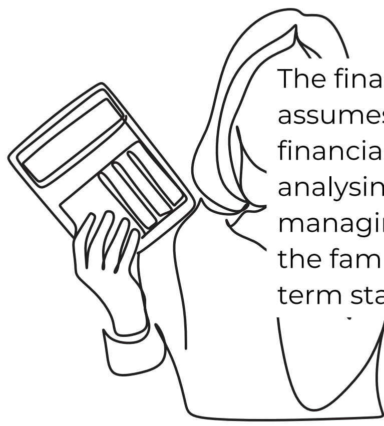


The idea generator brings creative and innovative solutions to successfully advance the family office and keep it up to date.

Idea Generator

The organisational talent ensures a structured approach to work and optimised workflows, guaranteeing efficient and effective collaboration within the family office.

Organisational Talent



The finance manager assumes responsibility for financial issues, by analysing, investing and managing the assets of the family to ensure long-term stability and growth.

Finance Manager

Explanation

In terms of the characteristics of the ideal family officer, both the survey and the interviews revealed a heterogeneous picture that can essentially be summarised under the roles presented here. The requirement profile is diverse and goes far beyond the finance specialist. Furthermore, it is becoming apparent that in the future the family officer will increasingly provide impetus and act as an idea generator for the asset holders and pro-actively involve them in the developments of the family office.

4.6 RESILIENCE

In recent years, we have seen an increase in so-called multiple crises. These crises include a range of interrelated challenges such as economic instability, trade disputes, geopolitical conflicts such as Russia's war of aggression in Ukraine, social unrest, climate change, and health crises such as COVID-19. Coping with such multiple crises requires a high degree of flexibility and adaptability from companies and investors. Family offices are well positioned in this regard, as their independent structure and long-term investment approach afford them greater flexibility than traditional institutional investors.

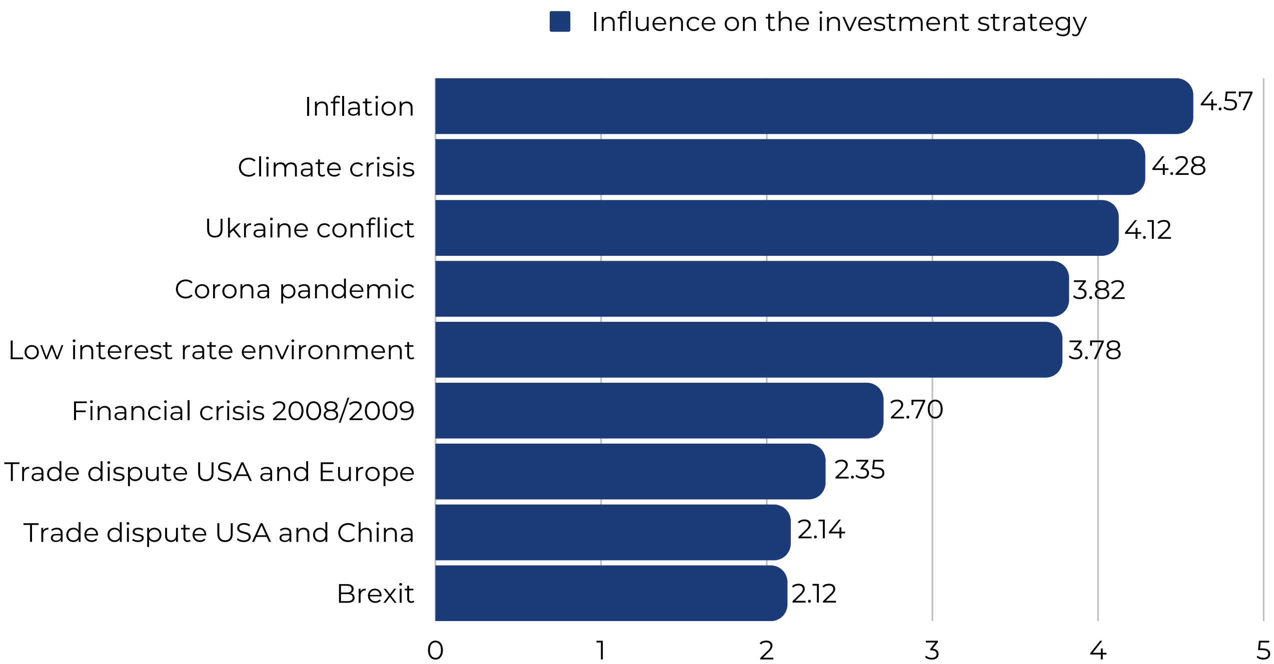


Figure 07: Influence of economic and political events on the investment strategy in the family office

An important step for family offices is to develop a comprehensive risk management strategy that addresses both short-term and long-term risks. This includes responding early to potential crises and promoting broader diversification of their portfolios to minimise the ramifications of individual risks. The survey showed that the majority of family offices have increased their stock portfolio in response to the COVID-19 pandemic, while at the same time there has been a significant increase in alternative investments and foreign securities. An increase in the liquidity ratio also shows that uncertainty due to the pandemic has influenced investment decisions. By contrast, the increase in percentages when it comes to bonds and real estate was comparatively small.

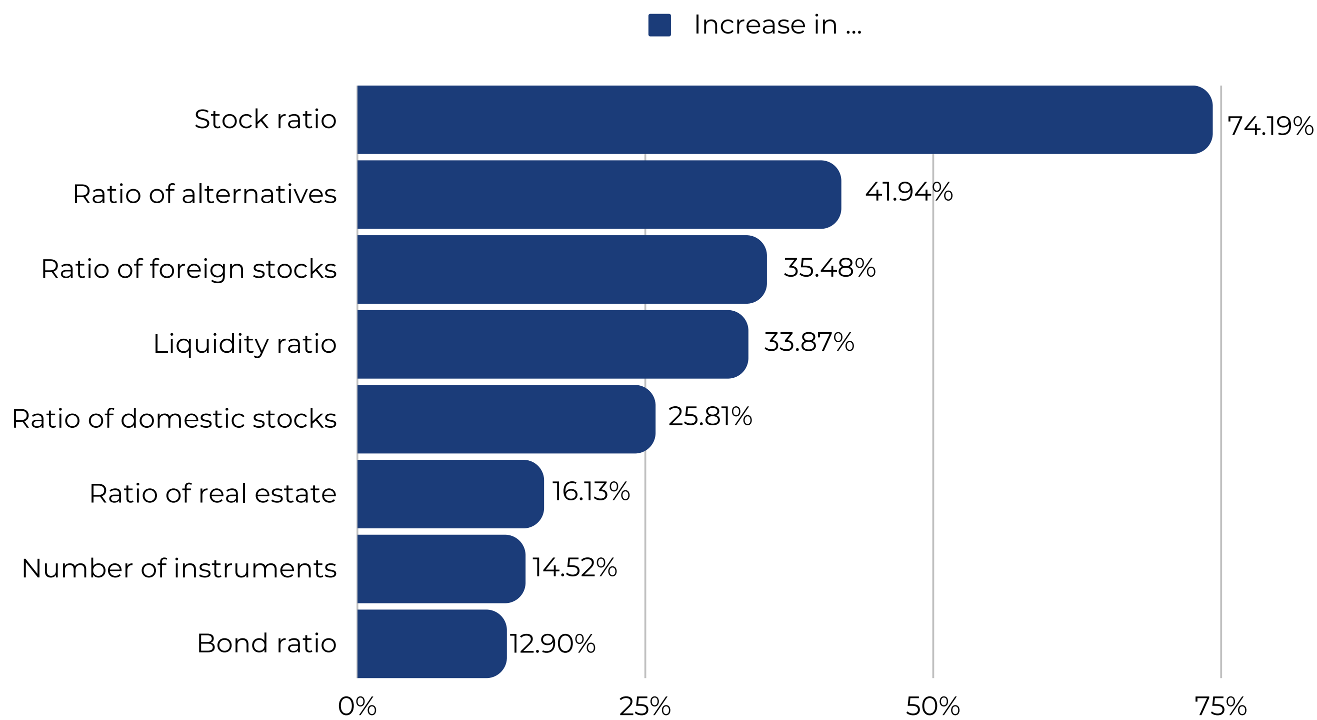


Figure 08: Measures carried out due to the COVID-19 pandemic

The survey shows that the majority of family offices have increased their bond ratio and liquidity ratio due to the Russian war of aggression in Ukraine, which could be due to increased risk aversion and uncertainty. A significant increase in alternative investments and foreign securities can also be observed. The increase in the stock ratio is comparatively small. The ratio of real estate, on the other hand, increased only slightly, while the ratio of other listed investments such as real estate instruments and hedge funds increased comparatively strongly.

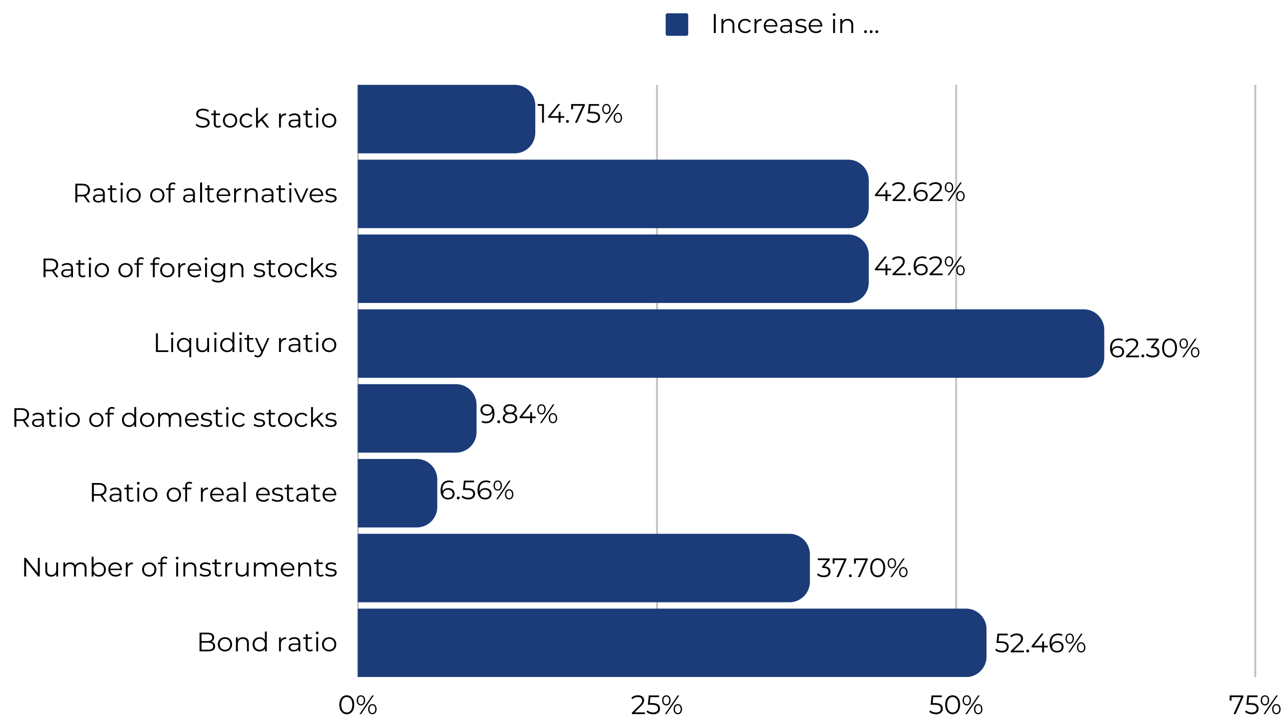


Figure 09: Measures carried out due to the Russian war of aggression in Ukraine

RESILIENCE

Another important aspect is the cooperation and exchange of information with other investors, government agencies and experts. Family offices should actively seek out partnerships to share their resources and expertise and to work together to find solutions to multiple crises.

In addition, family offices should re-think their investments in companies and industries that are most affected by the current crises and instead invest more in future-oriented industries and technologies that can grow even in times of crisis. Overall, multiple crises require a comprehensive and integrated approach to risk management and investment strategies. Family offices that are able to act quickly and flexibly and plan for the long term have the opportunity to succeed even in times of uncertainty and challenges.

All in all, successfully managing crises can enhance the family officer's reputation and the family's trust. Mobile working and flexibility were already common practice for some companies before the COVID-19 pandemic. This made it easier for many organisations to adapt to the new requirements and remain productive during the crisis.

A family office that had already integrated mobile working and digital solutions into its work routine was thus well prepared for the crisis from the outset. In times of ever faster forms of communication, it is advantageous to be technically up to date and to offer clients various ways of contacting the family office.

5

Digitalisation & Transformation

5.1 STATUS QUO OF DIGITALISATION

Digitalisation has strongly gained in importance over the past few years, also in family offices. In order to organise the processes in companies as efficiently as possible and to adapt to mounting requirements, an IT or digitalisation officer is indispensable as a constant point of contact. Building up relevant resources for managing the data and hosting systems is also becoming ever more important. In this, areas such as asset bookkeeping, asset controlling, portfolio management, contract management, scenario analyses, communication and payment handling are to be digitalised.

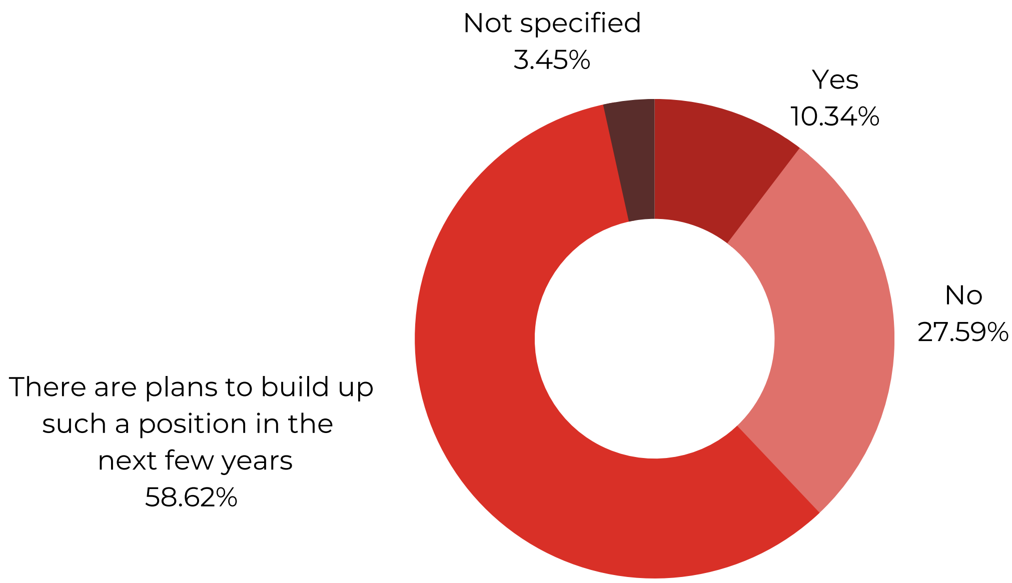


Figure 10: Building up the position of a technology expert

Paperless work processes have already been standard for several years now, and VPN solutions provide for secure data transfer. IT solutions are necessary in order to solve accounting problems; however, it is not absolutely necessary to visualise the processes and portfolios.

Nonetheless, it is a balancing act to move digitalisation forward and at the same time pay attention to data security. A digitalisation manager with expertise how to interface with banks or other asset managers is in development. There is also an ongoing discussion in many companies concerning an innovation manager. The next generation requires constant availability of information, and in 10 years, standards will have to be digital. One should note, however, that digitalisation also has its downsides, and it doesn't always pay to be a first mover (FO_05). In-house expertise is often limited, which is why collaboration with external experts is necessary.

> Fully. Everyone who say they work with Microsoft Excel – no. After all, the standard must be the same as for the company. And there is so much you can do with digital, there's tremendous potential. It is often not very obvious, because the teams are so small. But at the end of the day, it is a business, and accordingly, one should have the same standards.
>
> Interview partner 09, Family Officer & Asset Holder, Single-Family Office | In answer to the question: How digitalised do family offices need to be?

5.2 DEPLOYED TECHNOLOGIES

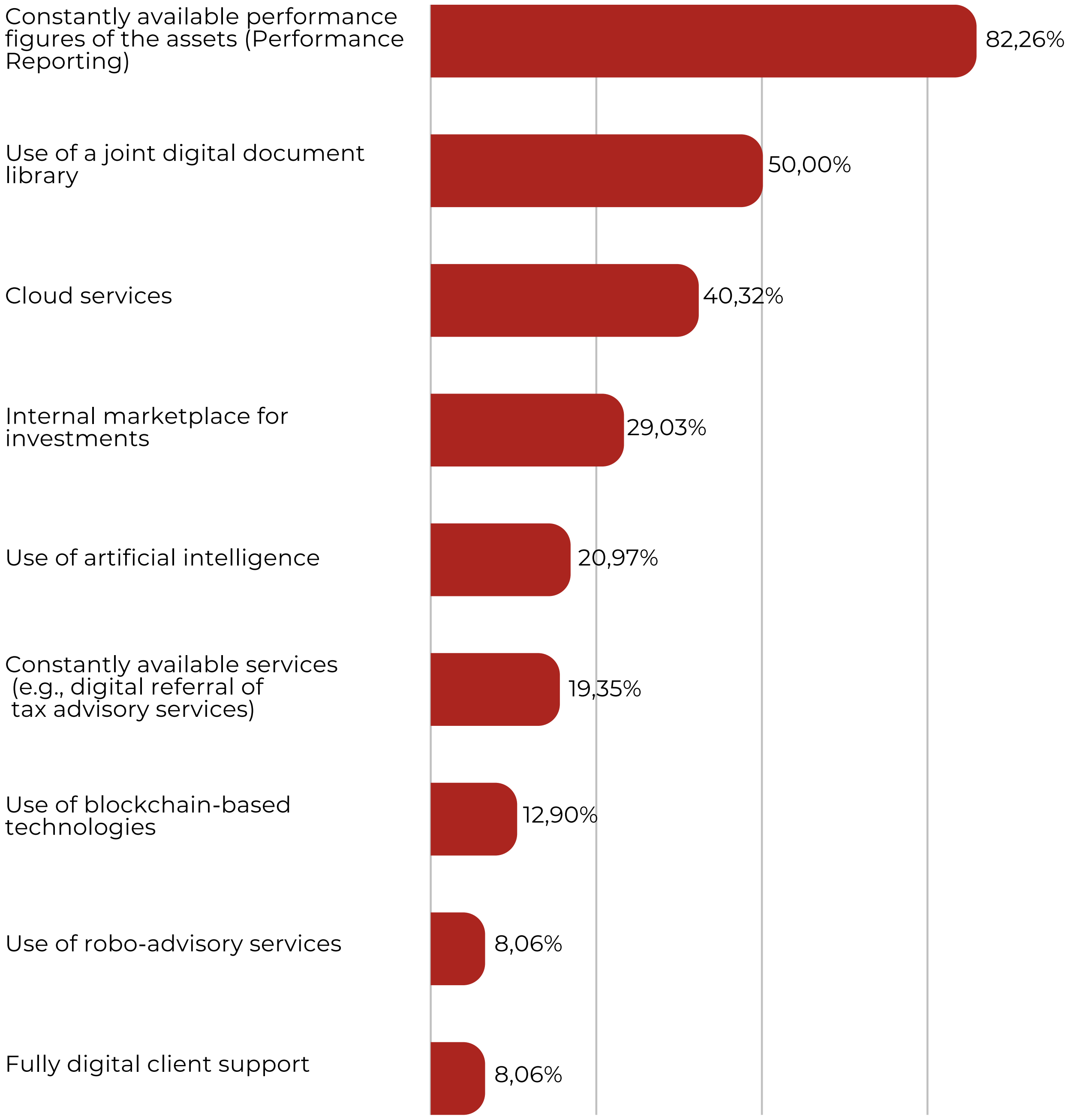
DEPLOYED TECHNOLOGIES

Family offices use myriad technologies in order to improve and more efficiently design their services. This includes investments in robotics and green technologies, along with the use of artificial intelligence (AI) for investment trend forecasts.

The digitalisation of FO services enable clients to have more control, which is achieved through the use of software solutions for regular reporting and review of investment portfolios, as well as digital dashboards and the display of non-liquid assets. There is already special reporting software for family offices, providing summaries of various assets; however some FOs still have not deployed these technologies. A good financial and document platform, along with functioning communication channels, are vital for the digital infrastructure of FOs.

FOs also use standard cloud providers, however, in order to store documents securely. The training of employees and the outsourcing of IT tasks to external service providers also belong to the strategies designed to cope with increasing requirements for digital infrastructure.

> "I would say that openness towards technology is a priority of the highest order, simply keeping your eyes open for the latest technological developments, along with an open mind towards this topic. As previously mentioned, you don't need to be the first mover, but you always have to at least keep a very careful eye on these trends, always looking out for opportunities and under no circumstances shutting them out. Even if it still may be out of the question today.
>
> Interview partner 17, Managing Director, Multi-Family Office



Which of the following technologies are you currently using in your family office?

Within the scope of the survey, we asked the respondents about the use of digital technologies. The respondents were able to choose among multiple responses as to which of the stated technologies were being used. The technologies were determined on the basis of the qualitative interviews.

DIGITALISATION: OPPORTUNITIES

5.3 DIGITALISATION: OPPORTUNITIES

The digital transformation offers family offices an array of opportunities to optimise their business routines, become more efficient and offer new services. The following opportunities stood out in the data survey:

Boost in efficiency: Through the use of technologies such as automation, artificial intelligence and cloud computing, family offices can optimise and more efficiently organise their processes. This can usher in cost savings and improved resource allocation. In addition, security aspects can be improved through digital storage of data.

Better decision-making: Through their use of data analytics and big data technologies, family offices can reach well-founded decisions by deriving insights from a wide variety of data sources. This can help reduce investment risks and boost performance. An integrated digital solution can help to reduce complexities and to increase efficiency by making data and processes visible in one central place. The streamlining of processes and the designing of more efficient routines lead to higher transparency and a reduction of human error. Digital solutions for regular reporting and review of asset portfolios offer an efficient opportunity to visualise processes and run decision making through computer models.

Personalised services: Through the use of digital technologies, family offices can offer their clients customised services based on their individual needs and preferences. This can help to enhance client satisfaction and commitment.

Extended access to asset classes: Digital transformation allows family offices to access new asset classes such as cryptocurrencies, tokenised assets and digital platforms offering alternative investment opportunities.

DIGITALISATION: OPPORTUNITIES

Better communication and collaboration: Digital tools and platforms facilitate communication and cooperation within the family office and with external partners. This can contribute to a more transparent and more effective communication structure. Comprehensive reporting and regular updates provide for constant information to be made available to clients.

Scalability: The introduction of digital technologies can allow family offices to scale their business routines to serve more clients or expand into new markets.

Risk management: Through the use of technologies such as AI-based analytical tools and blockchain, family offices can improve their risk management by better identifying, monitoring, and managing risk.

Sustainability and ESG investing: Digital technologies enable family offices to better integrate sustainability and ESG criteria into their investment decisions. This can help achieve financial and also social and ecological objectives.

There is a consensus among the interviewees: Overall, digital transformation offers FOs numerous opportunities to optimise their business processes and increase efficiency. In order to harness these opportunities, family offices need to develop their digital strategy and invest in technologies that support their business objectives. It is important to consider both internal processes and client relationships, and to ensure that digital transformation meets the needs and requirements of the family.

> "The fact that whenever I want to take a decision, that I am empowered as an asset owner to do so on my own without the interaction of a key account manager. Yes, because all the information, all the instruments, etc. are available to me. Yet at the same time, I naturally have the opportunity, at all times, to receive a really qualified client advisor on the line for an exchange of information or a personal meeting.
>
> Interview partner 05, Founder & Managing Director, Multi-Family Office

DIGITALISATION: RISKS

5.4 DIGITALISATION: RISKS

Digital transformation brings many benefits for family offices, but there are also risks to take into account.

Cybersecurity: As family offices increasingly rely on digital technologies and platforms, there is also a heightened risk of cyberattacks. Hackers may attempt to access sensitive data or manipulate transactions. That is why family offices must invest in security measures and train their employees in how to handle cyber risks.

Data protection and compliance: Digital transformation often involves collecting and processing large amounts of personal data. Family offices must ensure that they comply with data protection laws and maintain the privacy of their clients. Focus has to be placed on data security and IT security architecture and maintenance, as data security incidents are becoming increasingly difficult to manage.

Technological complexity: Integrating new technologies and digital platforms can be complex and requires expertise. Family offices must ensure that they have sufficiently skilled employees and resources to meet these challenges. At the same time, existing solutions, such as robo-advisors, are not suitable for family offices at the current stage of development due to the complexity of the assets to be managed (Krüger, 2020).

Adaptability: Digital transformation is a continuous process. Family offices must constantly adapt to new technologies, market conditions and client requirements. This can pose a challenge, especially for smaller or less agile organisations.

Bad investments & sunk costs: When introducing new technologies and digital solutions, there is a risk of investing in technologies that will later prove to be inadequate or obsolete. Family offices need to carefully evaluate the technologies they want to invest in and how they will integrate them into their business routines.

DIGITALISATION: RISKS

Cultural changes: Digital transformation often requires a change in corporate culture and work methodology. Employees must adapt to new technologies and processes, and this can be accompanied by resistance and difficulties in implementation.

Reputational damage: Digital transformation errors, such as data breaches or technical issues, can have a significant impact on a family office's reputation. Maintaining confidentiality and reputation is crucial for many wealthy families.

For the interview partners, there is reason for concern that the classic analogue family office will be left behind if it does not go digital. An additional risk is that competitive advantage will be minimised when different family offices use the same AI. What's more, robo-advisors are often not suitable for family offices, which due to their size and complexity require a different kind of asset management. Virtual collaboration can increase speed, but hasty decisions may be taken. It is essential to not lose sight of the sensitivity of client data. Misunderstandings and ambiguities may arise due to generational differences in communication.

When technical failures occur, there is a higher risk, and data security incidents cannot be ruled out. Internet dependency can lead to paralysis, which is why there always ought to be one go-to place as an office vault where all important documents are backed up. The human element should also not be neglected either, as people are often a weak link in IT security. There is also a risk that the individuality of the family office may be lost through the standardisation of digital processes. All these risks must be taken into account in the digital transformation of family offices in order to implement it successfully.

> "We can expect to see increased readiness for digitalisation and modern technology. What does this mean? It means that a classic analogue family office is going to find itself pretty redundant.
>
> Interview partner 05, Founder & Managing Director, Multi-Family Office

5.5 ARTIFICIAL INTELLIGENCE

ARTIFICIAL INTELLIGENCE

The digital transformation has long since also arrived in family offices. Artificial intelligence (AI) and blockchain technology are increasingly being used to improve processes, automate decisions and minimise risks. In particular, the use of AI for investment performance forecasts, as well as for reporting and review routines, offers many advantages. There are challenges, however: AI models will still not be able to fully represent the context of investment decisions in 2030. In addition, safekeeping issues related to blockchain technology and tax compliance need to be resolved.

Nevertheless, there are already some FOs that are successfully deploying AI processes in the investment process. Multi-factor-based AI funds are used, for example, to automatically select stocks for the portfolio based on set factors. AI is also interesting for audit routines and reporting and can assume a control function.

There is the risk, however, that something may also be overlooked. The use of AI in this area varies widely depending on the value-added depth of family offices. Individual family offices are already using AI to improve internal processes, for example for analysis and preparation of data.

BLOCKCHAIN TECHNOLOGY

5.6 BLOCKCHAIN TECHNOLOGY

Blockchain technology was greatly discussed during the interviews. The most concrete example of the use of blockchain technology is tokenisation in private equity. These digital tokens represent fractional ownership in the underlying company or asset and allow for easier and more efficient transfer and trading of these participations or stakes. The interviewees cite some advantages for the use of blockchain technology:

Liquidity: Private equity investments tend to be illiquid, as they are difficult to trade and are often tied up for longer periods of time. Tokenisation makes these shares more easily to trade, increasing their liquidity for investors.

Accessibility: Tokenisation enables private equity investments to be broken down into smaller chunks, affording more investors the opportunity to invest in this asset class.

Efficiency: Concluding business transactions with digital tokens on the blockchain is faster and less expensive than traditional methods because they can be processed without intermediaries such as banks or financial institutions.

Transparency: Because all transactions on the blockchain are publicly available to view, a higher level of transparency is achieved.

Easier portfolio management: Tokenised assets can be more easily integrated and managed in digital portfolios. However, tokenisation of private equity investments does entail some risks and challenges, such as regulatory issues, technological risks, and the need to develop appropriate evaluation procedures for tokenised assets.

Although FOs have already diversified technologically, relying on blockchain technology and focusing on cryptocurrencies, the potential of blockchains in the FO space has yet to be exploited. From today's perspective, there is great potential and initial use cases are being worked on.

6

Conclusion

10 THESES FOR THE FAMILY OFFICE 2030

In 2030, family offices will be managed in innovative and forward-looking ways to successfully meet the challenges of complexity, digitalisation and individualisation. The study reveals that a holistic approach combining financial, non-financial and family objectives will be instrumental in safeguarding success and prosperity for the entire family over generations. As a summary of the findings, below are 10 theses for the Family Office 2030.

1

Family offices integrate family values even more strongly and have social impact.

In 2030, family offices will more strongly integrate family values into their investment strategies and business practices to deliver added value to their clients. By linking financial objectives with social impact and sustainable investment strategies, they can achieve a meaningful, long-term impact. This will lead to family offices playing an important role in shaping a responsible and sustainable future.

2

Family offices offer a performance range of hyper-personalised services.

In 2030, family offices will offer a performance range of hyper-personalised services to meet the specific needs of their clients and family members respectively. By deploying the use of advanced technology and artificial intelligence, they are able to develop tailored solutions and thus achieve stronger client commitment. This will enable them to position themselves as first movers in their market segment and stand out from the competition.

Family offices focus heavily on impact investing and become trailblazers in sustainable investing.

In 2030, family offices will increasingly focus on impact investing and position themselves out front in sustainable asset management. By investing in projects and companies that achieve positive social and environmental impacts, they actively contribute to solving global challenges. This focus enables family offices to generate attractive returns while at the same time assuming responsibility for future generations.

Family offices strike a balance between exploration and exploitation in their asset allocation.

In the year 2030, family offices will be able to successfully find a balance between exploration and exploitation in their asset allocation. This allows them to invest in promising, innovative asset classes, along with proven investment strategies. This balanced approach also enables them to optimise long-term performance of their portfolios, while at the same time diversifying potential risks. Here we can expect to see a continuation of current approaches: On the one hand, there will be generalist family offices, acting as full-range providers, covering the entire spectrum of strategic asset allocation; on the other hand, there will be highly specialised family offices having tremendous expertise in a few asset classes. For either model, as today, there will be an ebb and flow between make or buy, characteristic of the challenge of successfully integrating partners and experts in the right places.

Family offices are resilient organisations – in handling both internal and external crises.

By 2030, family offices will be considered resilient organisations that can handle both internal and external crises successfully. Through a sound governance structure, efficient risk management processes and continuous adaptation to changing market conditions, they will be capable of achieving stable yields over the long term. Professional governance structures boost the resilience towards internal crises such as tensions within the family, for example. At the same time, resilience to external crises is buttressed by a highly diversified asset allocation and modern risk management. This resilience enables family offices to safeguard their clients' wealth while promoting growth that is both sustainable and viable over the long term.

Family offices strike a balance between flexibility and stability in their governance structures.

In the year 2030, family offices will strike a balance between flexibility and stability in their governance structures and do it with success. By combining tried-and-tested practices and innovative approaches, they can respond quickly to shifts in the market while at the same time ensuring the long-term stability of their organisation. This balanced approach helps to fulfil the expectations of their clients and to manage the family's assets in a sustainable manner.

Family offices harness transformative technologies to maximise the benefit for family members.

In 2030, family offices will harness transformative technologies in order to maximise benefits for family members. By using these technologies, they are able to develop innovative solutions tailored to the specific needs and requirements of their clients. This leads to improved efficiency, transparency and communication within the organisation and fosters greater satisfaction among family members.

This will make it easier for family offices to manage diverse portfolios, provide customised training, and facilitate collaboration among generations. Finally, Big Data analytics enable the identification of trends and patterns in financial markets, leading to improved decision making and targeted asset allocation. By integrating these technologies, family offices can achieve a high level of efficiency and client satisfaction.

Family offices instil enthusiasm in the next generation – not only with respect to the family, but also among future professionals

In 2030, family offices will instil enthusiasm in the next generation by adapting their services and investment strategies to the needs and interests of young family members. By integrating modern technologies, promoting sustainability and social responsibility, and embracing innovative asset classes, they will succeed in gaining the commitment from the next generation. This is true not only for the next generation within the family, but also in terms of attracting specialised staff who are motivated by an overarching objective. Family offices will be considered attractive workplaces that promote diversity and inclusion, thus attracting a broader range of talent. This diverse workforce brings different perspectives and expertise, resulting in more innovative solutions and better decision-making. As a result, the continuity of asset management is safeguarded and a shared vision for the future is created.

Family offices cooperate with each other and this is the rule and not the exception.

In the year 2030, cooperation among family offices will become the rule rather than the exception. By working together, family offices can pool resources, share expertise and make larger, more complex investments together. This networking enables them to leverage synergies and thus work more efficiently while achieving their respective objectives and ensuring long-term success. Close cooperation also leads to stronger positioning in the market and can enhance resilience to economic fluctuations and crises, contributing to higher-performing and more sustainable asset management.

Family offices create competitive advantages through decentralised, autonomous and transparent organisational structures.

In 2030, family offices will create competitive advantages by establishing decentralised, autonomous and transparent organisational structures. These structures promote collaboration, flexibility and speed in decision-making processes, resulting in more efficient and agile asset management. Decentralised autonomous family offices (DAFOs) have the potential to revolutionise the future of family offices by enabling customised financial services, increased transparency and automation through blockchain technology and smart contracts to make asset management more efficient and secure. Family members will be able to vote on key decisions through a token-based governance system, ensuring a more democratic and transparent operation. Via a virtual marketplace, family members participating in the family office can make co-investments and support each other individually in projects. Transparency within the organisation provides for clarity and trust among family members and allows for better assessment when it comes to the performance and effectiveness of the family office. Overall, these modern organisational structures help make family offices more competitive and engender greater family member satisfaction.

The future of family offices lies in their ability to adapt to ever-changing circumstances while at the same time strengthening family cohesion. Collaboration, innovation and a holistic approach are key to the successful asset management in the year 2030.

The future of family offices will be marked by successful management of financial objectives, non-financial objectives and family objectives. These do not necessarily have to be mutually exclusive: rather, the challenge for management is to reconcile these objectives in order to maximise added value for the asset holders and the company.

LEADING FAMILY OFFICES INTO THE FUTURE

This study on the Family Office 2030 shows that sustainable leadership can be achieved through the three elements, financial, non-financial and family objectives, working in concert. Aspects such as sustainability, digitalisation and new regulations will become increasingly important by 2030. The insulation of family offices from crises was emphasised during the COVID-19 pandemic, with broad diversification in the investment strategy.

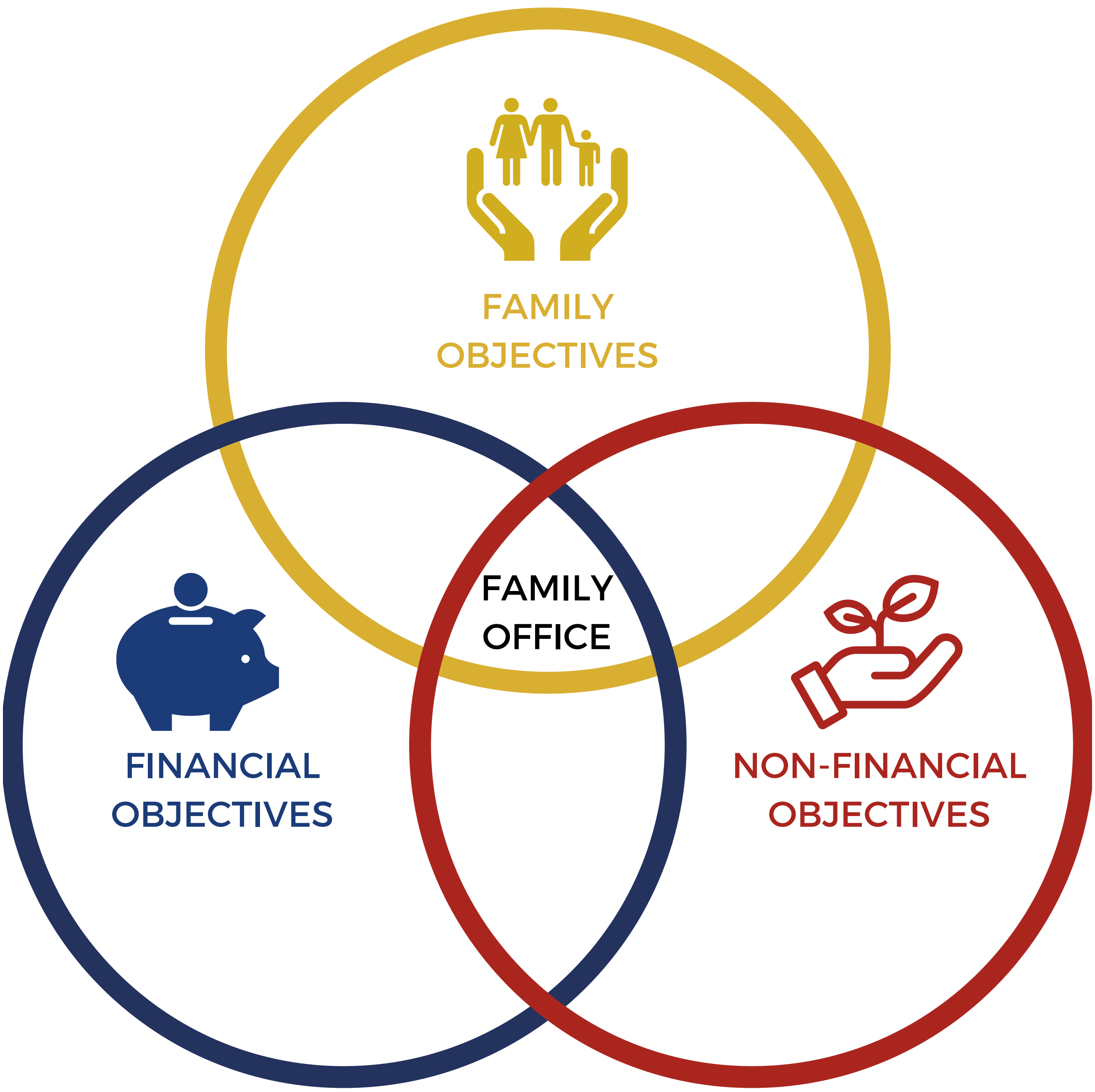


Figure 12: Set of objectives in the family office: between conflict and congruence

LEADING FAMILY OFFICES INTO THE FUTURE

The study provides hands-on recommendations for action and demonstrates that family offices are aware of challenges such as digitalisation, generational transition, globalisation and climate change. The actual implementation, however, is not always a given. Although family office structures, objectives, and opportunities vary, these conflicting objectives almost always show up.

Non-financial aspects, such as climate change and digitalisation, will become more relevant in the future, and thus decisions will go beyond pure investment or strategy issues. Intergenerational and intragenerational conflicts within families can emerge as the possible consequence of differences of opinion. The study offers a model for creating a typology of family offices, which serves as a point of orientation for practical options for taking action.

Family offices will make forward-looking investments, thanks to their high cumulative wealth, and thus assume a social responsibility. In order to generate constructive and problem-solving approaches to the challenges faced by family offices, future research should focus on synergy effects and early identification of problem areas.

In summary, the study indicates that family offices have to manage conflicting objectives between financial, non-financial and family aspects both today and in the future. Successful management of a family office in the year 2030 will be achieved through these three objectives working in concert.

7

Methodology & Sources

METHODOLOGY

The “Family Office 2030” study was carried out by the Friedrichshafen Institute for Family Entrepreneurship. The study is divided up into two phases: the qualitative phase and the quantitative phase. The qualitative phase consists of a series of expert interviews with people directive involved with assets. The quantitative phase includes a survey of family offices to complement and statistically validate the results of the qualitative phase.

Overall, mixed-methods approaches have three main advantages, which are outlined below (Kelle, 2022).

01

Triangulation and validation

Mixed-methods approaches offer the possibility of triangulation, in which the results of the methods can be compared and checked for consistency. This increases the validity of the study results by compensating for possible weaknesses or biases of a single method.

02

Flexibility and adaptability

The mixed-methods approach offers great flexibility and adaptability, as methods can be refined as the study progresses. In this study, the results of the qualitative phase were used to better tailor the questionnaire for the quantitative phase to the specific challenges and success factors of family offices in the year 2030.

03

Complementary aspects and expansion of knowledge

Qualitative research allows for in-depth insights into respondents' personal experiences and perspectives, while quantitative research identifies general patterns, correlations, and trends on a broader basis. By combining these two approaches, the study findings can be expanded in both content and context, providing a more comprehensive and nuanced understanding of the challenges and success factors facing family offices in the year 2030.

QUALITATIVE STUDY SECTION

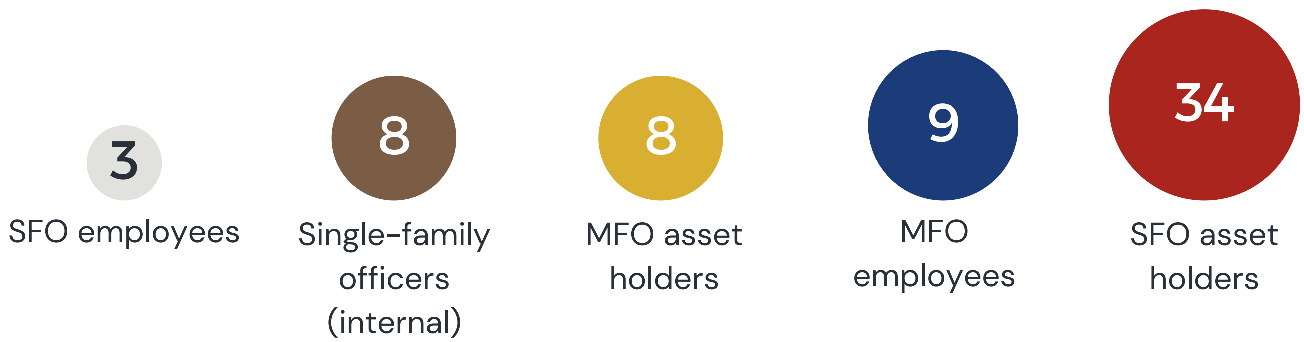
The first phase of the study includes qualitative, semi-structured interviews. The interview guide was developed in collaboration with family office experts and is aligned with the dimensions of the study. In selecting the interview partners, the focus is on as heterogeneous a combination as possible from the areas of single-family office, multi-family office, asset management, private banking, auditing and consulting. The interviews lasted between 60 and 90 minutes. They were digitally recorded, transcribed, and analysed using qualitative content analysis, in addition to coding methodology according to Gioia et al. (2013). The following table provides an overview of the interview partners.

	Role	Organisation
FO_01	Investment Manager	Digital Asset Manager
FO_02	Client Advisor	Multi-Family Office
FO_03	Partner of the Family Offices segment	Audit firm
FO_04	Managing Director	Consulting for Single-Family Offices
FO_05	Founder & Managing Director	Multi-Family Office
FO_06	Senior Manager	Private Banking
FO_07	Vice-President Family Office	Private Banking
FO_08	Family Officer & Asset Holder	Single-Family Office
FO_09	Family Officer & Asset Holder	Single-Family Office
FO_10	Family Officer & Asset Holder	Single-Family Office
FO_11	Family Officer (external)	Single-Family Office
FO_12	Founder	Investor network with a focus on family offices
FO_13	Family Officer (external)	Single-Family Office
FO_14	Family Officer (external)	Single-Family Office
FO_15	Family Officer (internal)	Multi-Family Office
FO_16	Advisor to the Management	Multi-Family Office
FO_17	Managing Director	Multi-Family Office

QUANTITATIVE STUDY SECTION

The quantitative phase of the study consists of a survey of family offices. The survey is intended to solidify and quantify the qualitative findings by measuring the congruence or incongruence with specific theses. The questionnaire contains questions on the topics identified in the qualitative phase and gathers additional demographic information about the family offices surveyed. The survey data are analysed using descriptive statistical methods. It is worth noting that the groups do not differ significantly in terms of their responses to the questions. Accordingly, no distinction is made between single- and multi-family offices in the figures.

Participants were identified and contacted based on a comprehensive contact database of all known multi- and single-family offices developed in-house and with the support of the Association of Independent Family Offices in Germany (Verband unabhängiger Family Offices, VuFO).



The largest group of participants consists of asset holders from single-family offices (SFO) with 34 individuals, while the smallest group consists of employees from single-family offices (SFO) with 3 individuals. The remaining groups have a similar size between 8 and 9 individuals. Overall, the study appears to focus on asset holders and employees of family offices (SFO and MFO).

The data show that the majority of family offices were established between 2000 and 2010, with 2005 being the year with the most office foundations. Since 2005, however, the rate of family office foundations has been declining, suggesting that either demand for family offices has decreased or the industry is saturated.

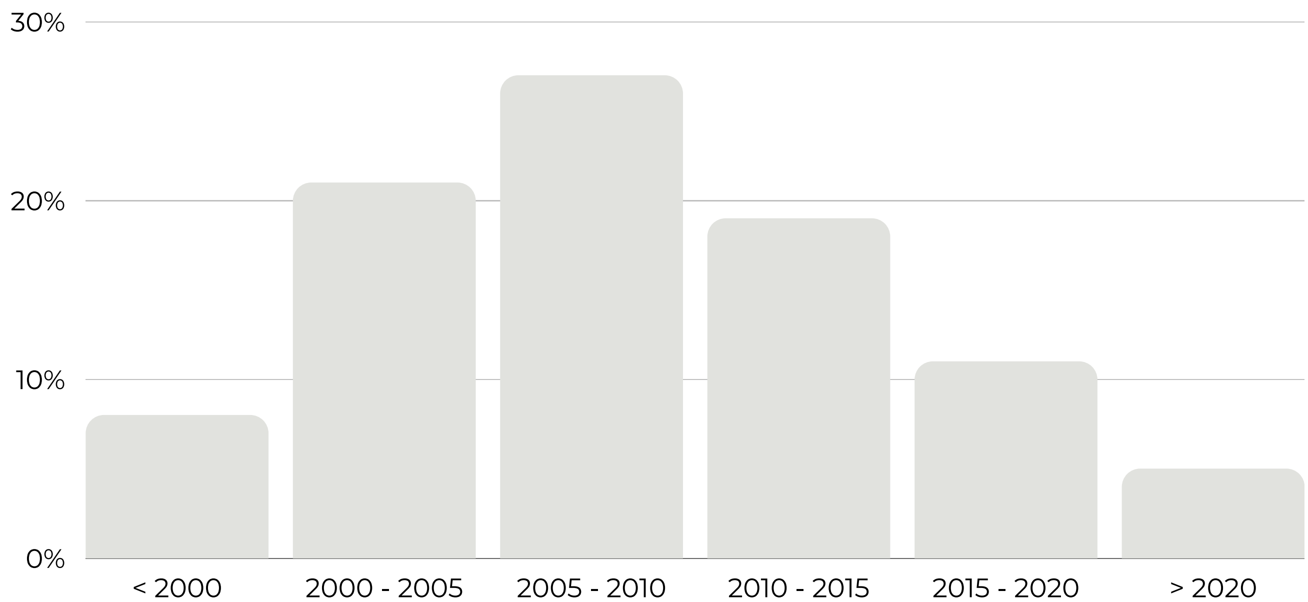


Figure 14: Founding year of the family offices examined

QUANTITATIVE STUDY SECTION

The factors precipitating the founding of a family office are myriad. Asset diversification is the most common (45.16%), demonstrating that wealthy families recognise the need for broader asset allocation and risk mitigation. The sale of family enterprises (29.03%) and participation in enterprises (14.52%) illustrate the importance of structural changes in family wealth and the desire for professional asset management.

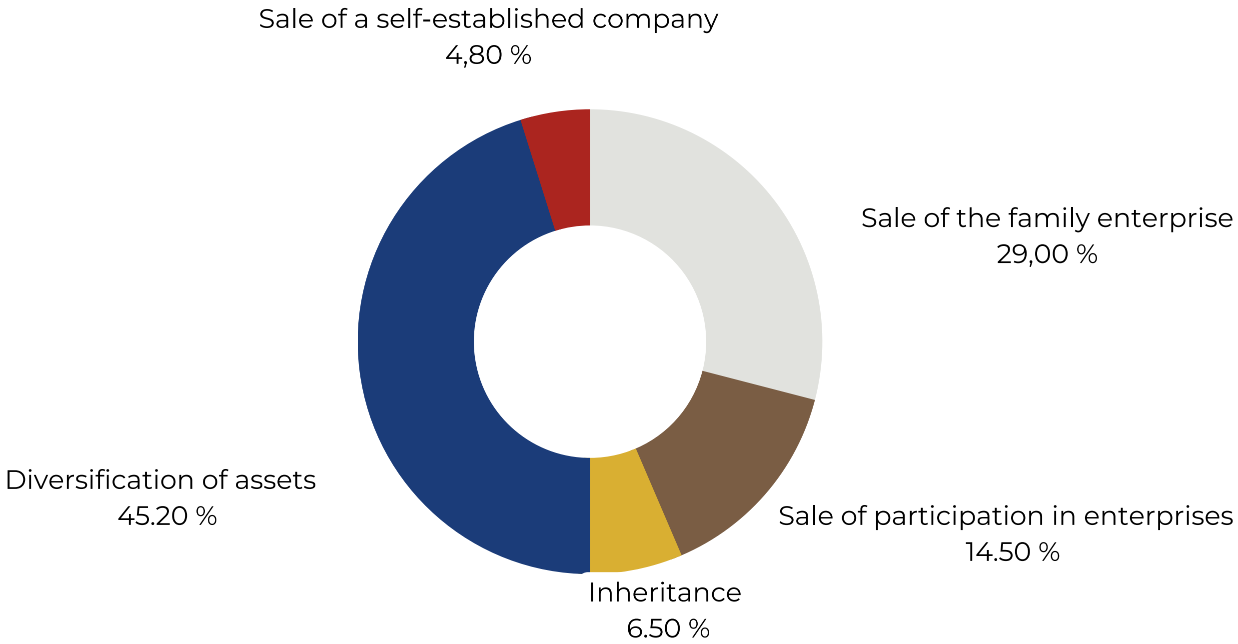
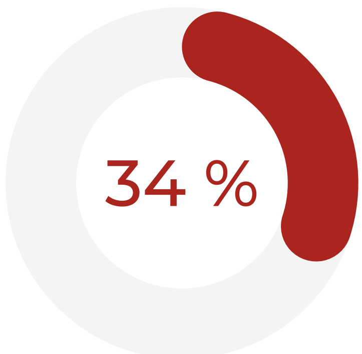


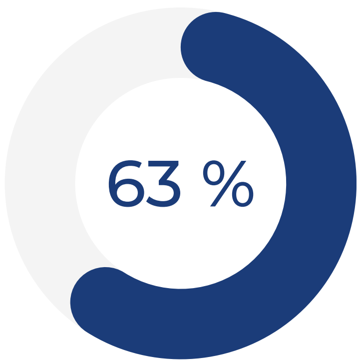
Figure 15: Factors precipitating the founding of the family office



34% of the asset holders have set up a foundation in addition to the family office.

Inheritance (6.45%) and the sale of self-established enterprises (4.84%) occur less frequently as motives to establish a company, but they generate additional financial resources and obligations that underscore the need for family offices.

The portfolio of participants consists not only of the single-family office or the multi-family office, but also other organisations. 63% of the asset holders are also shareholders in their family enterprise. 34% of the asset holders have also set up a foundation.



63% of the asset holders are shareholders in a family enterprise.

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ABOUT US

Zeppelin University is a private, state-recognised university in the city of Friedrichshafen in Germany. It was founded in 2003 and is named after the German entrepreneur Ferdinand von Zeppelin. The university offers a wide range of bachelor's and master's degree programmes in the fields of culture, politics, economics and communications.

The Friedrichshafen Institute for Family Entrepreneurship (FIF) is an interdisciplinary research institute of Zeppelin University. It was founded in 2009 and is involved in researching and analysing family enterprises and developing viable solutions and strategies for the challenges they face. At the FIF, we focus on issues such as the future viability of family enterprises in the areas of succession and the next generation, innovation and entrepreneurship, brand management, family offices, strategy and family governance.

In doing so, we combine theoretical research and practice-oriented approaches with an entrepreneurial spirit in order to actively shape the future viability of family enterprises.

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