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Thinking with Head and Heart: ‘Xylogenesis’ and Family Office Advisors

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'XYLOGENESIS' AND FAMILY OFFICE ADVISORS

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Tree rings record a deep, rich history of growth, health, sickness, and even trauma. They reflect the natural organic growth of a tree, as well as the effect of external factors such as weather and other environmental conditions, including disease, insects, lightning, and more. The technical name for this is “xylogenesis.” Etymologically speaking, it means, “creating the wood,” from ancient Greek.

A family of substantial means, and its enabling business or enterprise, evolve organically, too. They are impacted by external factors such as birth, death, divorce, business cycles, industry changes, and other factors that can strengthen or weaken the family. Thus, xylogenesis can be a useful metaphor for advisors and the ways they approach family wealth.

Like tree rings, a family's core contains tight, even perfectly uniform concentric circles. But, over time, the tree rings expand unevenly and develop individual differences, all contributing to the tree's unique characteristics. Likewise, families also develop uniquely as they grow; anything otherwise may not be realistic or attainable, leading to frustration, disappointment, and unhappiness. Instead, healthy families embrace their uniqueness and imperfections in order to learn, grow, and create a healthier family future. A correctly designed and evolving family office structure will protect and enhance a family, personally and financially.

Advising sophisticated, complex multi-generational families requires advisors who understand this xylogenesis effect.

These families and their family offices require the best technical, detail-oriented, up-to-date advisors. But they also require those with the highest degree of soft skills such as empathy, caring, understanding family dynamics, and the ability to navigate, read the room, and pivot with communication styles and approaches that reach across generations, branches, and individuals.

This is not an “either/or” choice. To have an enduring and endearing relationship with clients, family office advisors must lead, advise, and communicate with their heads as well as their hearts.

In other words, designing, structuring, re-imagining, advising, and operating a family office involves both art and science.

If managed properly, the creative tension between heart and head should create sustainable positive results that help families to achieve resilient legacies. Family office advisors must facilitate matters with their clients to nurture and discover the balance and blend between the two polarities.

ADVICE THAT IS QUANTITATIVE, OBJECTIVE, HEAD-BASED, SCIENCE-BASED

The science side of family office advising requires:

- Intelligence, exceptional technical skills grounded in the fundamentals, and an enjoyment working with the details.
- Desire, capacity, curiosity, and acumen to learn the most current and forward-thinking approaches in multidisciplinary areas such as law, accounting, business, wealth management, investment management, banking, insurance (all types), technology, philanthropy, lifestyle items, etc.
- Analysis and execution of complex, multidimensional matters at a high capacity and volume.

Challenge. The rigid structure, operations, and documentation in a science-dominated family office can lack creativity, resulting in office activities that are perfunctory, templated, and not tailored to suit a family's needs, values, and goals.

Reflection. Ensure extreme circumstances do not develop in the family office that can cause the environment to feel sterile and void of collaboration, energy, and inclusiveness.

Result. The science-dominated family office usually will use the phrase “there is no ‘family’ in the ‘family office.’”

ADVICE THAT IS QUALITATIVE, SUBJECTIVE, HEART-BASED, ART-BASED

The art side of family office advising requires:

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- Exceptional empathy, social awareness, and high emotional intelligence that can navigate interpersonal dynamics and perspectives among family (and non-family) members from different generations and branches.
- High value for non-stop innovation, creativity, spontaneity, and chasing the “shiny new object.”

Challenge. An art-dominated family office can be too ambiguous, create too much new work, and amplify a family's values and goals to the detriment of the governance and execution of a well-designed strategic plan and its accountability to an operating budget.

Reflection. Ensure a lack of direction does not develop that causes the family, managers, and operators to constantly act on new endeavors that lead from “thinking outside the box” to “no box at all.”

Result. A sustained art-dominated approach in a family office can result in chaos and dysfunction, leading to poor financial results, high personnel turnover, and a breakdown in family harmony.

Families and their family offices require a blend of multidisciplinary advisors who grasp complex technical matters (quantitative, head, and science) and

complex family dynamics (qualitative, heart, and art). ●

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