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Unlocking Potential Family Office Boards: The CHRO – It’s All About People

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The authors of this article get into the weeds of how family offices are run, and the role of these institutions’ boards.

The following article is from Richard J Wolkowitz (main picture) and Matthew Huffman. Wolkowitz is founder, Xylogenes, Family Office Advisory. Huffman is managing partner of SLATE.

The editors are pleased to share this article on issues relevant to family offices; the usual editorial disclaimers apply. To respond and enter the conversation, email tom.burroughes@wealthbriefing.com

Integrating a chief human resources officer into the boardroom is emerging as a critical strategy for aligning family culture with employee engagement, mitigating talent-related risks, and fostering long-term sustainability. This article explores the transformative impact of CHROs on family office boards, offering insights into strategic talent management, cultural alignment, and proactive governance.

The most basic purpose of a family office – whether for a single, embedded, virtual, or hybrid family office – is to deliver high-touch, bespoke services to the family (or families) for a dynastic period on a 24/7/365 demand basis.

Stipulating that this is the broad (and daunting) definition, family offices naturally require individuals with highly nuanced, technical acumen, with the capacity to think creatively and strategically, possessing great emotional intelligence to navigate complex family dynamics and direction.

Layering on top of all of that, family offices by their very familial nature have a certain aura, ambiance, uniqueness or even “quirkiness” about them which evolves generationally – by branch and by household – either organically or intentionally into what is called the “family culture.”

Hence, a family office consists of:

- high-demanding, complex, affluent clients;
- highly unique, differing and potentially conflicting perspectives and personalities;
- high-demanding and ever-evolving (and sometimes diverging or conflicting) expectations, needs, desires, goals, purposes, priorities, time horizons, and instructions;
- highly intelligent, empathetic, adaptive, motivated, and client-centric service providers/staff;
- a bespoke collective family culture that ideally aligns with the family office culture;
- services that are to be provided on-demand on a 24/7/365 basis; and
- a dynastic lens that must look backward at the great multigenerational family history with the NowGen’s present-facing desires, needs values, goals, and priorities, and the NextGen – and even FutureGen – thinking about the challenges that do not yet exist.

Most interesting, when it comes to family office staffing and retention, the question often asked beyond technical qualifications is: “Is there a ‘fit’ between the [candidate/employee] and the [organization/family].” This squishy, often undefined, subjective term of art (“fit”) can also create an unhealthy workplace that can turn into toxic culture and risk exposure from “group think” if not managed properly.

After reading and re-reading this description, one might think this is a powder keg scenario akin to a volcano's magma building in pressure beneath the earth's surface just waiting for the eventual fissure with the ill-fated eruption of lava ... and catastrophic devastation.

The stakes are certainly high for family offices which are often teetering between unprecedented success and cataclysmic implosion.

This complex reality cannot be overstated. While outsourcing and/or artificial intelligence (AI) may mitigate some of these financial and non-financial challenges, it cannot fully manage, replace, or eliminate them, especially the interpersonal dynamics. Being an ostrich that avoids this complexity as reality or hoping technology is the "silver bullet" solution is not a recommended strategy.

As such, family offices need to focus on both the "who" is receiving and "who" is providing those services; this is not an either/or scenario but a both/and...and, there are still many other factors that family offices need consider.

While family offices spend some time on staffing needs and direction, it is generally reactive rather than proactive. The question remains how to achieve focus and the right focus both tactical and with strategic human capital.

In such a highly personalized, high-touch, concierge business, ownership must take responsibility and double-down on the strategic oversight of the organization's human capital. Ownership executes its responsibilities through a governing body called a board of directors. The directors are elected by the owners. The composition of the board should contain certain subject matter experts that support the vision.

Family office boards typically have expertise in some or all of the following:

- Finance and accounting;
- Wealth and investment;
- Real estate;
- Tax and estate (planning and compliance);
- Legal;
- Accounting and auditing;
- Risk management;
- Technology;
- Philanthropy and social impact;
- Business management and operations;
- Family governance and succession-continuity; and
- Lifestyle and concierge

It is a rarity, however, that a family office has a board member with subject matter expertise in "culture building" and "human resources." How ironic, considering family office = people.

Family offices operate on a unique blend of professional and familial dynamics. A CHRO's ability to navigate and integrate these cultures is invaluable. By focusing on cultural fit and employee engagement, CHROs help maintain harmony and productivity within the organization.

This lapse in the strategic nature of human capital compounds irony further considering that most family office wealth is attributed to the family operating company/business/enterprise ("OpCo"). Generally, the family office principal attributes their OpCo success to one of several factors: one factor is always "culture" and "culture = people." Thus, it is all about, "people, people, people" (an expression endearingly repeated by one of my single-family office mentors).

Hence, why is something so seminal and critical to the success of the underlying business "golden goose" ignored when it is a key attribute of the family's wealth and ethos?

Let's explore the value and challenges of having the subject matter expertise of a chief human resources officer (CHRO) sit on the board of a family office that helps drive culture on both the board itself and oversight of the family office.

The value proposition of CHROs on family office boards

Strategic talent management:

- It all starts at the top with family office leadership identifying, visioning, prioritizing, defining, and electing a CHRO to the board;
- Integrating CHRO expertise into family office boards ensures that talent management is proactive and aligned with both business objectives and family values that can unlock huge benefits for the family office board;
- CHROs focus on defining, articulating, integrating, and aligning family culture/fit with employee culture/fit;
- CHROs bring expertise in talent acquisition, development, and retention, which are critical aspects of a strong competitive advantage;
- Talent acquisition isn't just about filling roles; it's about strategically aligning the right people with the right positions to drive long-term success;
- CHROs offer a unique perspective to help boards address workforce trends, diversity, and succession planning;
- Succession planning is not a one-time event, but an ongoing strategy that should be viewed as continuity planning. A CHRO's expertise in developing leadership pipelines and ensuring seamless transitions should foster continuous growth and leadership development within organizations as a focus;
- Human capital insights; and
- CHROs offer valuable data-driven insights on workforce trends, cultural fit, and employee engagement, crucial for informed board decisions.

Risk management:

- CHROs help boards identify and mitigate risks related to talent shortages, compliance issues, and employee activism.

Why CHROs get overlooked on family office boards

Traditional board composition:

- Trends favor CEOs, CFOs, and technical or industry experts on boards as they can add value to objective, tangible, and quantitative questions; and
- Family office culture is something that is normally managed and driven by the family, not a non-family member.

Misconceptions about HR:

- HR is considered an operational, or non-strategic function;
- Perceived lack of sophistication; and
- Inherently focused on emotional rather than rationale.

Lack of visibility:

- CHROs and recruiters do not actively promote this position for board opportunities given the perceived lack of value and more narrow focus.

Current trends: Family office board talent evolution

Demand for diverse perspectives:

- Increasing focus on board diversity, including expertise in human capital management; and
- Broad and varying perspectives, skills set, and backgrounds foster innovation, growth, and risk mitigation to ensure that family offices develop a strong brand, remain competitive, and attract and retain top talent.

Emphasis on long-term sustainability:

- Boards need to recognize that "family office = people" and human capital is a key component for long-term, dynastic success and continuity

Rise of the CHRO as strategic partner:

- Understanding workforce competition, motivations, performance, incentives, and discipline occurs when CHROs are integrated into boardrooms; and
- These perspectives underscore the strategic importance of human capital in family offices and how CHROs can drive value through their unique expertise and focus on people.

How CHROs can position themselves for a family office board

Developing board-level skills:

- CHROs need to develop and build their strategic acumen, financial literacy, and knowledge of board governance.

Networking and Visibility:

- CHROs need to actively network with other board members and CEOs by attending industry events and conferences.

Demonstrate strategic value:

- CHROs need to quantify their value to their organizations through HR initiatives and P/L improvement (productivity, continuity, lack of distraction/disruption).

Demonstrate strategic value to the board itself:

- CHROs offer fellow board members a distinct perspective.

Finding the right board fit:

- It is important to identify family offices that would appreciate the value and perspective offered by a CHRO.

Positive outcomes for family offices

Enhanced strategic and data-driven talent management and decision-making:

- CHROs on boards contribute to a more comprehensive, data-driven approach to workforce talent strategies and board discussions.

Improved stakeholder engagement:

- CHROs may help boards build a stronger employer brand, attracting top talent.

Stronger risk mitigation:

- CHROs provide an additional layer of risk management oversight from a different lens.

Family offices, particularly early-stage, tend to have “quantitative-driven” decision-makers focused on the technical and financial aspects of tax, wealth preservation, wealth protection, wealth growth, wealth transfer, and creditor protection.

As family offices mature and evolve, emphasis should be placed on non-financial components such as durable family harmony, legacy planning, shared education, and shared philanthropy. As this occurs, “qualitative-driven” decision-makers and influencers must be included in the boardroom to provide balance and a perspective which that can guide sustainable and resilient oversight and direction.