

## **Hidden Dangers of Running a Large Single Family Office**

**By Richard C. Wilson**

It is important to discuss the topic of the most painful and dangerous parts of running a single family office as it is often held up as a desirable or enviable type organization to work for or have in place for your family, but it is not all rainbows and liquidity events. Sometimes I get the feeling from outsiders that they think managing a single family office is like a relaxing cruise across a flat lake with no volatility or risks or that critical situations never happen, when in reality there is a lot of risk and the stigma around these topics cause them to be talked very little. Three hidden dangers I've identified in my years of working in the family office space include:

### **Blackmail**

Could also be referred to as a mole and typically it's a competitor. They're working for a family office but also relaying information to the other family in the same industry. Whether the family office is in the coal, technology, or defense industries—these situations can happen to anyone. I know a large family office in New York who had an employee working there for the sole purpose of giving highly confidential details to another family office. More often, the case of blackmail from a current employee is seen. The employee could say they're going to go public with the family office negotiations or to disclose confidential litigations that may be occurring within the family office. Maybe the family didn't do anything wrong at all, but the employee may feel they have some leverage. One of my clients, who are worth several hundred million dollars, told me they've been blackmailed ten to twelve times since they first became ultra-wealthy. We've only had one or two of these types of situations arise in my company, but they were very minor. We had the appropriate solutions for these employees, but this is not always the case for some families.

### **Embezzlement**

We've had this happen one time in one of our operating businesses, but the employee who stole was reported by another employee. Once we verified the allegation was true, that person was removed from the firm immediately. Stealing of company assets or money can be a frequent occurrence in the family office space due to lack of controls. Many times single family offices are not managed or formal enough to the degree they should be. They are often not regarded as what they are, which is almost a small business in itself with the needs of payroll, governance, rules, and financial controls. In our case we had strong financial controls in place but the one area where I wasn't stringent enough in order to save time; our business had to pay the cost of losing time and money in the long run. Trust but verify is a theme that families have to operate in our current day environment. Single family offices don't like to talk about having to deal with employees who have stolen money from them because it could make them look like they lack judgment to counterparties, investors, or partners.

### **Cyber Security and Fraud**

If a single family office is hacked, they certainly don't want anyone around them knowing publicly. At the extreme, a single family office could be fined for releasing private data. Also, it could hurt relations with co-investors or other families that might partner with the family office because they feel their operations are not secure. Many large families do spend several hundred dollars on IT and part of that spend has a security component to it. I really don't see this being a topic of conversation in the priorities of families or emphasized enough, especially with families under a billion dollar in net worth. None of my clients in the 100-300 million dollar range focus on this as a key objective or key concern and I encourage them to do so more often. In the future this will continue to be a growing concern as it hits the front pages of newspapers. More and more of blue-chip, publicly traded companies with 5 million dollar IT budgets are still being penetrated by hackers. I definitely encourage families and those that serve our industry to put in stronger cyber security controls in place.

Not placing appropriate controls from the start can be destructive to both personal family relationships and the investment portfolio of the family. At the very least every single family office should identify what controls they have in place and be aware of steps that can be taken to improve them.

*Richard C. Wilson helps \$100M+ families start and manage their single family offices. He is CEO of the Family Office Club and bestselling author of the book called "The Single Family Office."*