



10 Hidden Challenges of Running a Family Office

Family offices play a pivotal role for multigenerational wealthy families, often serving as the central hub for financial management, estate planning, and family governance.

However, even the best-intentioned family offices can encounter pitfalls that could derail their long-term success. This article explores 10 common ways family offices can go off track and offers insights into how these issues can be addressed. While this is by no means a comprehensive list, each topic should encourage further communication and planning within families and the family office team members that support them.

This article focuses on midsized, privately held family offices that primarily serve lifestyle management and wealth preservation functions for one or a few generations. These family offices typically manage private capital across a mix of assets—often including real estate, operating businesses, and market investments—but are not yet operating at the scale or complexity of institutional-grade offices. While they may not have formalized governance structures or deeply specialized internal teams, they are actively growing in capability and ambition. The focus is on those family offices that are early to mid-stage on the “maturity curve”—with the interest, and the capacity, to professionalize and scale further.





1 GOVERNANCE BY GUT

In the family office context, governance refers to a framework for family direction and decision-making based on a shared mission and goals. Too often, the purpose of a family office, the services it has been tasked to provide, the goals it aims to achieve are vague. Additionally, the decision-making framework within the family office can be authoritarian or opaque. This model may work when the family office services a single generation, but challenges arise as the number of family members, family units, and generations supported by the office grows. Someone needs to be empowered (or hired) to spearhead conversations about establishing well-defined governance frameworks and communication channels. While often difficult and time-consuming, this enables all stakeholders to be included, informed, and engaged in the family office's long-term success.

2 SILOED AND STALLED

Most family offices operate using a distributed service model, meaning some functions are managed internally while others are outsourced to third-party providers, including investment advisors, bankers, attorneys, accountants, insurance brokers, and others. Coordinating such a diverse set of stakeholders can be difficult and time-consuming, yet collaboration is the cornerstone of a successful family office. When advisors operate in silos, the lack of collaboration can lead to unintended consequences and missed opportunities. Investing time and resources in the cross-pollination of ideas is likely to pay dividends in the long run.

3 SUCCESSION STUMBLES

Like operating businesses, family offices benefit from robust succession planning to safeguard continuity. It protects the long-term viability of the family office entity and minimizes potential conflicts or oversights down the road. Unfortunately, succession planning takes significant time and effort and requires accepting that the key individuals who may have faithfully served the family in the past will not be the same ones to serve future generations. In addition to identifying who will be the future family office leaders, a succession plan should include a clear process for transferring the historical knowledge that has been accumulated over the years - not just the what (assets the family owns) and where (documents are stored), but the why (certain decisions were made and/or advisors were appointed). Capturing decades of insights and information, storing that information so that it can be easily accessed, and creating a systematic approach for continuing to build on this foundation takes forethought and effort by those at the helm. Unfortunately, this work falls into the "important, but not urgent" category, and day-to-day responsibilities and requests often get in the way of making progress, catching many family offices off guard with a retirement announcement, illness, or death.



4 WHEN THE GLUE IS GONE

Many family offices rely on a few key people that seem to know everything about day-to-day operations, along with key nuances for successfully serving the family. They seem to always know who to call, where every document is saved, and how to address even the most esoteric needs. Documenting responsibilities and cross-training functional roles is difficult in a small family office, but it's important to help mitigate the risks associated with key person dependency. These risks not only entail the disruption caused by an unexpected leave of absence or resignation, but the fraud risk inherent in such a role. Periodic internal control assessments, automated transaction testing, and dual approval of expenditures over a certain threshold are examples of techniques that can be applied to mitigate some of these risks.

5 SILENCE ISN'T A STRATEGY

Avoiding conflict for the sake of family harmony can lead to breakdowns in communication and put significant stress on family office employees. Ignoring difficult conversations about inheritances, unhealthy spending habits, poor investment decisions, drug and alcohol dependence, competing priorities, and lack of financial independence may put family office employees in a bind when these issues conflict with the goals and objectives they are trying to achieve for the family at large. Encouraging a professional approach to communicating concerns and providing the family with professional resources to address these issues will enable a cohesive working environment for the family office and strengthen relationships with family members.

6 NEXT-GEN NEGLECT

Engaging the next generation is essential for preserving the family's legacy and ensuring continuity. Failing to involve younger family members in decision-making processes can result in disconnection and a sense of loss of purpose. By fostering relationships and providing opportunities for involvement, family offices can empower the next generation to take an active role in serving and supporting the family wealth enterprise. This engagement not only strengthens family bonds but also prepares future leaders to carry the family's legacy forward. In addition, rising leaders often want to choose their own advisors (such as attorneys and tax accountants) and increasingly want more direct access to information such as their personal balance sheet, cash flow reporting, and investment performance reporting.

7 ONLY COUNTING WHAT'S IN THE BANK

Human capital is a valuable asset for any family office, regardless of the number of employees. Neglecting employee policies and professional development can lead to dissatisfaction, turnover, and inefficiency. Implementing comprehensive human resources practices, including employee handbooks, annual performance reviews, compensation adjustments, and career development plans is not only an essential risk management technique but also enhances employee satisfaction and strengthens the family office's overall capabilities.



8 TECH WITHOUT TRACTION

In today's rapidly evolving technology landscape, family offices are presented with a growing array of software programs geared to serving the ultra-high net worth space. While some eagerly embrace sophisticated new tools, others struggle to move away from the familiar basics of QuickBooks and Excel. There are increasing demands for real-time liquidity and balance sheet reporting, yet it is easy to underestimate the accounting and investment reporting expertise required to produce accurate statements, let alone the complexities involved in compiling the data that underpins these reports. When implementing new technologies, it is easy to misjudge the level of expertise needed to administer more sophisticated systems, leading to frustration when the promised efficiencies and enhanced reporting fall short of expectations. Family offices are more successful when they take a balanced approach to evaluating and implementing new technologies, one that encourages investment in new solutions while also providing a roadmap for optimized adoption and use.

9 WHEN SIMPLE GETS COMPLICATED

Many family offices seek tax-efficient solutions for growing and passing down wealth, employing tools such as family limited partnerships, complex trust structures, and for-profit business models with the use of carried interest. Often, however, family office employees are not up to speed on the intended purpose and technical aspects of these structures, nor do they have the right technology and resources to support efficient and accurate administration. Collecting and storing important documents, building and maintaining trust summaries and entity organizational charts, producing consolidated income statements and balance sheets, anticipating liquidity shortfalls, and projecting cash flow needs become increasingly challenging as the complexity of asset portfolios grows. Providing time, training, support, and tools to help manage turmoil is important for optimal outcomes.

10 THE HIDDEN CRACKS

In many family offices, failing to address and mitigate risks can lead to substantial threats, particularly in areas such as cybersecurity, fraud, and privacy breaches. Family members may be allowed to use free email accounts to communicate with the family office and outside advisors. Multi-factor authentication is viewed as an unnecessary annoyance. In family offices with only a few employees, implementing segregation of duties to prevent or detect fraud becomes a formidable challenge due to limited personnel available to divide responsibilities effectively. Although many family offices perceive themselves as small and straightforward, the reality is that they often face significant risks in today's complex environment. Family offices of all sizes should prioritize the implementation of comprehensive risk management strategies to protect their assets and ensure privacy.



HOW BDO CAN HELP

For many, this list of potential pitfalls should serve as a starting point for deeper conversations with advisors inside and outside the family office. BDO's Private Client Services team is committed to sharing insights on how ultra-high-net-worth individuals and families can effectively capitalize on opportunities that enable the transfer of wealth in accordance with their goals and objectives.

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