COMMITTEE REPORT:
HIGH-NET-WORTH FAMILIES & FAMILY OFFICES

By **Susan R. Schoenfeld**

Family Office Succession Planning

Helping founders who are ready to retire

Your clients, John and Ann Williams, successfully sold their business and established a single family office (SFO) to invest the sales proceeds and support their family's investment, reporting, tax and other needs. Now, they're getting ready to retire and ask your advice about succession planning for leadership of the SFO. As it's common for a substantial portion of the wealth of the family to be tied into the SFO, this matter takes on considerable weight within their family. Here are three important considerations as you advise your clients and prepare them for this all-important transition.

Selecting the Successor

Ideally, the identification of a successor leader should happen years before the anticipated transition, but this step is often the most emotionally difficult for a successful patriarch and matriarch, who may not believe that their children are ready or that they possess the right combination of skills necessary to assume the leadership role. Successful entrepreneurs often reach their level of success by hard work and long hours in the extreme, the vision to see what might be and exceptional business acumen, with or without formal education. These traits are not as commonly found in second generation inheritors, who don't face the same level of adversity.

John and Ann provided their offspring with the best of everything and encouraged them to follow their own passions. As a result, their children didn't grow up with the hard knocks life experience or the fire in the belly that their parents have, and John and Ann have come to believe, perhaps too late, that none of their children are suited to take over the leadership reins when the time comes. This view may not be entirely objective.

As their advisor, you might provide John and Ann with some perspective and your objective view on the readiness of their children to take on more of a leadership role, and you can suggest interim steps to help them get there. Further, you can help John and Ann come to terms with the fact that, while they may never believe that their children are ready to take over, it's important for them to plan ahead. As aging patriarch and matriarch, John and Ann need to take steps to plan their retirement and train new leaders to take over.

Not only might John and Ann think that their children are unprepared to assume the mantle of leadership, but also, they must overcome a significant hurdle in not being ready to give up that mantle. They've gotten accustomed to the financial and psychological trappings of leadership, including the literal and figurative seat at the head of the table, running the family meetings and the ultimate decision-making authority. They might not be comfortable relinquishing this power role to someone else, even as they realize the necessity of doing so. A possible solution might be to develop a governance process whereby John and Ann can maintain leadership, though not necessarily day-to-day management of their SFO.

In addition, planning for retirement has been compared to planning one's own funeral and brings up deep-seated fears about mortality. Estate planners know too well how clients postpone critical planning out of a reluctance to discuss thoughts of their own mortality. Many of the same techniques that planners bring to those estate-planning discussions may be employed in the planning for an orderly transition in SFO leadership.

John and Ann have gotten on in years and may no

Susan R. Schoenfeld is CEO of Wealth Legacy Advisors LLC in New York City

longer have the requisite mental capacity to continue as leaders of the SFO. If so, their children might seek your advice on a course of action to relieve John and Ann of their decision-making roles, while still providing them with respect and dignity. You may have drafted the governing trust instruments that provide a process for such situations.

If none of the children or grandchildren have any real desire or ability to assume the leadership role, John and Ann might have to consider a non-family member successor. The long-time chief operating officer or chief financial officer of the SFO has served the family faithfully for many years, watched the children grow up and likely knows more about the family wealth enterprise than the family itself. It might be very appropriate to name this long-time employee as successor. This individual would likely bring on more professional management of the family's investment and tax functions, providing a greater level of accountability and service to the family than the founder generation would have. You would need to establish appropriate safeguards, not only for a compensation structure to incentivize the employee to continue on, but also for a structure to groom a successor for this long-time employee who would continue the family's goals and values.

Grooming the Designated Successor

If the successor is one of John and Ann's children, that individual may have gotten a head start on her training to take control. Many years ago, when John and Ann's children were young, you'd advised them to begin to teach their children basic financial literacy skills in age-appropriate ways. They followed this advice all along, established bank accounts for their children and encouraged them to save a portion of their weekly allowance. The children learned about interest compounding and the basics of investing.

As the children got older, John and Ann would bring them to the SFO, informally educating them on much of the day-to-day operations of the office. The children spent increasingly more time at the SFO over time, taking on summer internship positions to learn about all the different accounting, investment and tax functions. Because John and Ann laid all of this groundwork over the years, the children have more than a passing familiarity with how the SFO operates.

Once John and Ann have officially selected their designated successor (whether one of their children or a non-family member), the next step is a process to groom and develop that successor to eventually lead the family enterprise. More intensive training about the inner workings of the office and in-depth discussions about overall business vision and investment philosophy should become the priority. John and Ann should undertake a detailed discussion about SFO policies and procedures, with particular emphasis paid to the distribution policies for the family members.

The transition process should be a gradual one, in order for the new leader to develop the necessary knowledge base.

The transition process should be a gradual one in order for the new leader to develop the necessary knowledge base. The designated successor will have much to learn even as she may have already been exposed to the inner workings of the SFO. The process might start with a shadow program, so that the successor may watch and learn from the retiring leader, not only the operational management issues, but also the values and the vision that led to the success of the family enterprise. The next step might be an interim power-sharing arrangement between the current leader and the designated successor. This step can be tricky for many reasons. John and Ann have been accustomed to sole decision-making authority for many years and won't be comfortable sharing this power. The designated successor too will struggle with this dual decision-making arrangement. The SFO employees may have conflicts in loyalty, especially if they receive mixed messages from the two sets of leaders.

The final step in the transition is the ultimate transfer of sole decision-making authority. While this is a legal matter, as the family's trusted advisor, don't limit this final step to the simple act of signing some legal documents. As discussed in the next section, the SFO might plan a formal ceremony or other event to celebrate this culmination of all the planning, training and development.

> There may be resentment about the choice of a successor, and family members not chosen or members of their family branch may seek to disrupt the planned orderly transition.

Communicating the Succession Plan

Another reason that the transition process should be a gradual one is to allow for all stakeholders in the plan to acclimate to the new leadership regime.

The non-management family members may have a more passive interest in the management of the SFO, but will undoubtedly care very much about their continued financial interest in the ongoing family enterprise. They'll need to be assured that there's a formal education program in place to provide for an orderly transition of SFO leadership. Some may wish to opt out of future participation in the shared family economic enterprise if they're not assured that the designated successor leader will continue the expected economic prosperity.

In addition, there may be resentment about the choice of a successor, and family members not chosen or members of their family branch may seek to disrupt the planned orderly transition. Depending on how extended the family is, there may well be family members who thought they were qualified but were passed over for the top spot.

To overcome these and other objections of family members, you should establish an ongoing program of open communication, providing the opportunity for family members to voice questions and concerns and to allow for new ideas and ways of approaching the overall SFO transparency. You might suggest that special roles be created for these other family members to use their special talents on an ongoing basis.

Similarly, the SFO employees will appreciate honest communication about the planned transition and what's expected of them during and after the transition. They may have concerns about their continued future employment and should be reassured to the extent appropriate. If staffing changes are expected, John, Ann and the new leader should communicate them all at once, so that morale isn't compromised by the uncertainty of ongoing terminations.

Finally, John and Ann, as the retiring family heads, will often have complex and ambivalent feelings about their own impending loss of control. The power-sharing balance during the transition period may be especially difficult for the hard-charging entrepreneur who's traditionally had the final say. This may be part of the reason that the leader doubts that his children are ready to take the reins.

You can begin preparing your client over an extended period that such a transition isn't only inevitable but ultimately beneficial for the overall family enterprise. One technique that's proven effective is for you to suggest establishing a new "emeritus" role for the retiring leader, to smooth the personal emotional difficulties for the founder created by the transition. In this role, the retiring leader still retains a title, a continuing role with defined responsibilities and some defined perks of his position as founder.

You might advise John and Ann to plan a big ceremony for the actual day that the new leader takes over to provide an opportunity to acknowledge and celebrate their leadership over the years, welcome the new leader and serve as a clear demarcation of the date of the transfer in leadership. This will prove critical going forward, especially if John and Ann overstep their emeritus roles and attempt to veto decisions made by the new family office head. A carefully orchestrated transition planned well in advance may avoid many pitfalls of family office leadership succession.