Rothstein Kass

Family Office Group

Solving the Succession Planning Problem

Navigating Transitions in Family Office Leadership

By Richard J. Flynn, Principal-in-Charge, Family Office Group

Succession planning can be a difficult exercise for any organization, but in a family office environment, where emotions run high and competing priorities are prevalent, the process is especially challenging. In fact, in a recent Family Wealth Alliance study, family office executives identified weathering the transition in generational control or leadership as their number one challenge. Perhaps even more telling is that in that same study, nearly two-thirds of executives surveyed (62 percent) admitted they have no formal succession plan in place. Both points suggest that family offices are struggling mightily in the succession planning process and, in some cases, avoiding it altogether.

Based on years of experience helping family offices plan for and navigate leadership transitions, we have compiled a set of common pitfalls and actionable best practices to shine some light on this issue and help solve the growing family office succession planning problem.

Pitfall #1 — Emotion as a Planning Obstacle

Challenge:

If family offices were run by robots, emotion wouldn't be a problem. The reality is that human beings lead families, and taking the emotion out of succession planning is much easier said than done. The planning process brings major life issues like mortality, ego and ceding control of something that has been someone's life for many years. Often, those emotions not only hinder the planning process but, in many cases, halt it altogether. Bickering, infighting and an unwillingness of leaders to step aside have derailed many a planning process. So what's a family office to do?

Best Practice:

The best tool for combating emotion is inclusion. Families need to create open and collaborative planning processes where multiple members from multiple generations are actively involved in decisions. Beyond that, a meritocracy is a must. As the old adage goes, you are born into the family but not into family leadership. Families must work together to develop an objective system, perhaps even a rating scale, to determine who is best qualified to lead in the next generation. Collaboration and objectivity go a long way in removing emotion from the planning equation.

Pitfall #2 — No Next-Gen Leader

A succession planning process is often predicated on the notion that there is an adequate successor ready to take the reigns. Unfortunately, sometimes that just isn't the case. Families must take a hard look at the next generation and see if there is someone who is willing, able and ready to lead. If the answer is no, the game changes. The process quickly evolves from planning for a transition to training the next leader. In these situations, the hope is that the problem and the next leader are identified before it's too late.

Families that wait until the succession planning process to judge the ability of the next generation are almost always too late. The best prepared families put the next generation in positions to judge their strengths throughout their lives. Whether it's funding a small business or placing them on the family's foundation board at a young age, it's better to invest in the next generation earlier than to thrust them into a leadership position untested and unready. A little leadership testing early goes a long way in putting the family in the best position to succeed long term.

Pitfall #3 — Competing Advisor Priorities

Most family offices build up a deep stable of advisors over many years. And while these advisors all provide value in their own areas, they often bring competing priorities and confusion into the succession planning process. The challenge for families is cutting through the clutter, determining who to listen to and what advice to act on.

It's important to pare down the planning process and only involve the most trusted advisors. And while it's important to get the insights and advice from a select few, it's also important that the family, not advisors, lead the planning. Family survival is at stake in succession planning and family members should have ultimate accountability.

Pitfall #4 — Overlooking the Opportunity to Evolve the Mission

Like many businesses, family offices often don't have a mission statement or don't actively follow the one they do have. The succession planning process is an opportunity to create or re-create a mission that will help guide the family's actions and investments for this generation and others to come. Unfortunately, many families are so consumed with succession that the mission conversation is overlooked and the opportunity to evolve it goes by the wayside.

A strong and actionable mission statement is a must for the best-run family offices. Make the mission statement discussion a formal element of succession planning, but more importantly, align the mission with a set of articulated and tangible goals. The more actionable the mission, the greater the impact it will have on daily operations and long-term sustainability.

Pitfall #5 — Putting On the Asset Management Blinders

Challenge:

Some families mistake the succession planning process for an exercise in asset management strategy. It's important for families to understand that the planning process extends beyond asset management to life management. It's about education of the next generation, philanthropy, staffing, acceptable behaviors and so much more. When the asset management blinders are on, families miss the important issues that can derail them or propel them to success later.

Best Practice:

It's easy to say, "pay attention to the small things," but most families don't. So it's important to put processes and safeguards in place to make sure the little details aren't missed. Create a checklist of things to address and discuss during the planning process and solicit input from family members to ensure the list is comprehensive. The more comprehensive the succession planning process, the more likely it will lead to future success.

An Often Overlooked Element of Succession Planning

By avoiding the pitfalls and following the best practices above, families can take control of the succession planning process and better plan for future success. But there is one aspect of succession planning that is rarely considered – planning for transitions of key employees and advisors. Families must remember that generational change is also an opportunity to re-evaluate advisors in a collaborative effort between generations.

While advisor transitions aren't the same as changes in family leadership, they do have many of the same emotional and political pitfalls. The steps and best practices above do apply, but there are other specific action steps that can help guide advisor transitions as well. Perhaps the most obvious is that advisor transitions must be identified as an issue or action to be considered. Once that reality has been accepted, then a systematic process for planning the transition can begin. Some specific steps include:

Assess the scope of services – This transition is an opportunity for improvement. Assess the real scope of services needed to support the family in specific areas, then work with the family leadership team to identify gaps in skills and put a plan in place to fill them.

Begin a dialogue – Transitioning an advisor should begin with an open and honest discussion with your current advisor(s) about his/her long-term ability or willingness to stay in the role. Work with your current advisor to write a job description for the next advisor and to document processes or best practices that have been put in place.

Solicit advice and referrals – In most cases, advisors will not pick a successor that is better than them. So it's important to look to outside sources such as search firms and trusted colleagues to identify candidates and provide feedback in the process.

Run on parallel tracks – An abrupt transition is often an unsuccessful one. In the best-case scenario, the existing advisor and the new advisor would work together on parallel tracks for several months. This collaboration will ensure a smooth transition by allowing issues to arise and questions to be asked in real-world situations rather than in planning sessions or simulations.

Succession planning doesn't have to be so daunting; the problem is that many families don't know where to start or how to follow through with a solid process. The steps above can help eliminate some of the confusion and chart a course for successful succession planning. More importantly, these steps can lead to successful transitions and the long-term sustainability of the family – and that's the real measure of success.

About the Author

Richard J. Flynn is the principal-in-charge of the Rothstein Kass Family Office Group, named Best Multi-Family Office Service Provider in 2012 by *Private Asset Management* magazine. A lawyer specializing in advanced planning and advising high-net-worth clients on wealth enhancement, wealth transfer and asset protection planning, Rick also consults on family office creation, best practices and operations. Rick advises clients, including business owners, executives, hedge fund managers, professional athletes and entertainers on lifestyle management and managing their personal financial affairs. He is co-author of *Fame & Fortune: Maximizing Celebrity Wealth* and *The Family Office: Advising the Financial Elite*. Rick is a frequent speaker at seminars and conferences on topics related to wealth management for high-net-worth individuals.

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