Successful Succession in a Single-Family Office:

Five Actions for a Smoother Transition

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Succession planning in family offices is rife with complexities. We offer five practical ideas you can use to mitigate those complexities and increase the likelihood of a successful leadership transition in your family office.

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After 25 years of running his family's investment office, Sam was ready to move on. By all accounts, he had an extraordinary run. He oversaw the family office as assets ballooned from $2B to $10B with accompanying growth in both the organization and complexity of investments.

Unfortunately, as Sam looked at his family, there were no obvious candidates to succeed him. His son had potential but was not yet experienced enough. His nieces and nephews were not qualified. None of the existing professional staff from within the family office had been groomed for the role. The idea of bringing someone in from outside was so foreign that he never really considered it. Without a clear successor, Sam felt stuck.

Sam's story is not unusual. Succession planning is a critical and complicated part of any organization, and family offices are no exception. They face the same set of set of challenges as other businesses going through succession planning. First, leaders in any organization are hard to replace. Second, the idea of change is scary. Change represents risk – to the business, to the owners, and to the departing leader. If a leader has been in place for a long time, as is so often the case with family offices, that risk feels even higher. A long-tenured leader may have more trouble letting go of a role, and the organization may not know if they want a new type of leadership or more of the same.

According to the Deloitte 2019 Family Office Trends, "For many family offices, the greatest challenge is, and always will be, generational change. How do you prepare for and then manage through the handover from one principal, especially the original wealth creator, to the succeeding generation?"

Family offices present a unique set of succession challenges, which may explain why only 24% of family offices have formal succession plans, according to survey data from the *2018 Global Family Office Report* by Campden. They are highly personal and private businesses. Leaders may know more about the family than anyone making it uncomfortable to think about someone new knowing so much.

Additionally, family dynamics can complicate matters. Family members (especially founders) may feel entitled to stay in a role ("I built this!") while next gen family members may feel the organization is obligated to consider them for leadership roles. Oftentimes, the family enterprise lacks the structures to manage these complex situations. And so it's not uncommon to find the leader of a family office eager to move on, but without any clear path for doing so, leaving both the family and staff frustrated with the lack of progress.

So, what could Sam and his family have done differently to better prepare the organization for succession? There are five critical elements of that will help pave the way for a smooth succession process for family office leadership:

1) **Ensure alignment on the family office's strategy**: Leadership succession can be a good time to define or confirm the strategy of the family office. Answering questions such as, "what purpose does our family office serve?", "what are our specific objectives?", "how are we doing against our benchmarks" can define the qualities needed in the next leader. What worked well for one generation may no longer work for the next. For example, we worked with a family office that had been founded decades ago for the purpose of overseeing a primarily passive pool of investments as a tax and accounting office. It had only one leader in its history, and she was ready to retire. In recent years, the next generation of owners had pushed the family office into new areas, such as

seeding new entrepreneurial ventures and investing in impact investing funds. The new focus was part of the reason the outgoing leader had decided to retire. But it wasn't until the owners reflected on their needs going forward did they recognize that the next leader needed to come from a different background and have a more relevant skillset to serve the family office's future goals.

2) Set up a transparent process: It can be tempting to rush to nominate a successor. Resisting this temptation, however, and instead running a transparent process, dramatically improves the likelihood of a successful transition. We suggest working with your stakeholders to de-personalize the process from the start, even before you start interviewing candidates. Making decisions about the process and the criteria *before* you attach candidate names allows the family to measure each candidate more objectively. Can you agree on what you are measuring those candidates against? A well-designed process will give confidence to the owners that a good decision will be made. Depersonalizing the process (working off of a mutually-agreed upon list of requirements that have been specifically designed to meet the family's long-term goals) also has the benefit of reducing bad feelings that can come from family members who may be passed over for the job.

   Changing leadership can be a shock to any organization, especially when the process is handled poorly. The stakes are even higher in family office transitions because the owners of a family office are also the clients, and the work that is done by the family office is often personal and confidential. A detailed communication plan for family members and employees is a critical component of a successful transition. Family members will feel far more confident in a process they understand. If possible, soliciting input from family members and employees on the process and criteria can unearth good insights and has the added benefit of creating buy-in from those who feel like they were consulted. The last thing you want to do is surprise the family or the team with a new boss.

   In one family office transition we worked on, the CEO turned the process over to the independent directors of the Board. The Board, in turn, consulted family members, created clear objectives for the new leader, defined the qualities they were looking, and considered family and non-family candidates. By the time the new family office CEO was selected using this rigorous, professional process, he had the full support of the family, Board, and management. He has been very successful in that role ever since.

3) Proactively manage the transition: Succession often focuses only on the incoming leader, but a thoughtful exit plan for the outgoing leader is also essential to a successful transition. After all, why would you risk having years of valuable institutional knowledge walk out the door before giving the new leader the benefit of that wisdom? Creating a clear plan for how the current leader will train, support, and transition leadership to the new CEO is a necessary part of the larger process—and should not be shortchanged. Due to the highly personal and confidential nature of family offices, transition plans should incorporate time for the family to get comfortable with the incoming leader and prepare emotionally for the departure of the outgoing leader.

   Try to help guide the outgoing leader to a "place to land," especially when it's a family member. The outgoing leader should have some purpose and focus in his new role. Several years prior to the transition, the retiring leader should look for ways to fill their time when the transition happens. A typical retirement is not likely to work for someone used to being in the center of the action. As one client once told us that "you must retire to, not from, something." That can include sitting on outside boards, or taking on a new role within the family enterprise, such as supporting the family foundation or developing the next generation. Without such a safe place to land, it can be all too easy for a family leader to fall back into old routines, popping into the family office, communicating directly with team members, offering unwanted "feedback" on every move, confusing the team and undermining the successor in the process. That's not to say that the departing leader isn't entitled to know how the family office is doing (and they will likely still be around enough to gather snippets of information). So, try to direct that natural interest by devising ways for the departing leader to stay informed (e.g., regular updates about major decisions and overall performance) while drawing some important boundaries to avoid organizational confusion.

One large US-based family office handled the sensitive transition from one CEO who had been in the role for 20 years to a new CEO by having them co-lead for a defined period of time before the outgoing CEO moved to a board role at a portfolio company. This glidepath brought comfort to the family, created space for the new CEO, and found a place where a valued departing leader could still contribute.

4) Prepare the organization: It is easy to underestimate the extent to which the entire family office is built around the leader, especially one who has been in the role for a long time. All the people, processes, and systems bear their personal stamp. When the next leader takes over, it can be difficult to fit into the surroundings. Making major changes right off the bat can be disorienting to the family and risky for the new leader. A better solution is for the current and next leader to work collaboratively on moving the organization in a direction that will suit the successor. Sometimes, that can mean finding ways to gracefully exit long-time employees who will not be able to effectively serve the new regime.

   We worked with one family office where the long-time leader sought to control the relationships with family members by handling even the smallest of details. While this high-touch, micro-managing style made life easy for the family members, they became dependent on the family office leader – which is what he wanted. When he retired, the family wanted to shift from a concierge system to an investment-focused operation. Unfortunately, the organization wasn't ready. The remaining family office staff never built relationships or trust with the family which made it nearly impossible for the new leader to delegate the legacy services and focus on the new mandate. The situation could have been avoided if steps were taken to integrate the staff and the family prior to the leadership transition.

5) Revisit governance: A new CEO will almost certainly have a different skillset and leadership style than the outgoing CEO. The new CEO may have to earn the trust of the family before certain decision authorities are granted. The family office may view the leadership transition as a change in strategy. All of these factors could contribute to changing how decisions are made in the organization.

   As you prepare for a leadership transition, it's essential to revisit your governance structures and processes. In particular:

   - *Do you have the right forums for making decisions?* The previous leader, especially if it was the founder, may have been able to speak on behalf of all of the owners of the family office's investments. The new leader may not be in a position to do that. If that is the case, consider creating a venue where owner-level decisions – such as making major new investments or divestments, selecting board members, setting the investment policy statement – can be made in a way that includes the range of voices.

→ *Have you clarified decision authority?* Certain decisions, such as how you will select Board members or make an acquisition, are sufficiently important and frequent to warrant being clear in advance about how you will make them. Consider creating a Decision Authority Matrix, which clarifies who has input into a decision, who assembles the input into a recommendation, who makes the final call, who (if anyone) can veto that decision, and who is informed about the decision even if they didn't participate in making it.

→ *Do you have the right policies and agreements in place?* Family offices can avoid recurring conflict by creating policies – in effect, pre-made decisions. If you can agree in advance on a set of issues that should, always, be treated the same way, you can likely minimize conflict down the line. That can include your investment policy statement, your dividend or distribution policy, or a family employment policy. As you navigate the leadership transition, consider creating or revisiting these policies and capturing them in a single place, often called a Family Constitution. Also, make sure that your legal agreements (shareholder or buy-sell) are up to date. Many family offices operate off of informal understandings and handshakes, which tend to work just fine right up until the moment they don't work at all.

One client we worked with brought on a family member to lead their family office. The family never addressed the authority of the role. The new leader viewed silence as consent and started unilaterally making acquisitions that most family members felt were way beyond the leader's mandate. The lack of clear decision-making protocols led to frequent conflict with the board and the family and ended with the CEO getting fired due to misaligned expectations. Revisiting who makes which decisions and how they are made will help define the role of the CEO and reduce the confusion that comes from a new leader.

CONCLUSION

Leadership transitions in a family office bring a tremendous amount of change in a short period of time. During these moments, you can either set the family office up for another generation of prosperity or set the stage for its untimely collapse. Following these five steps can help improve your odds of a successful succession.


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