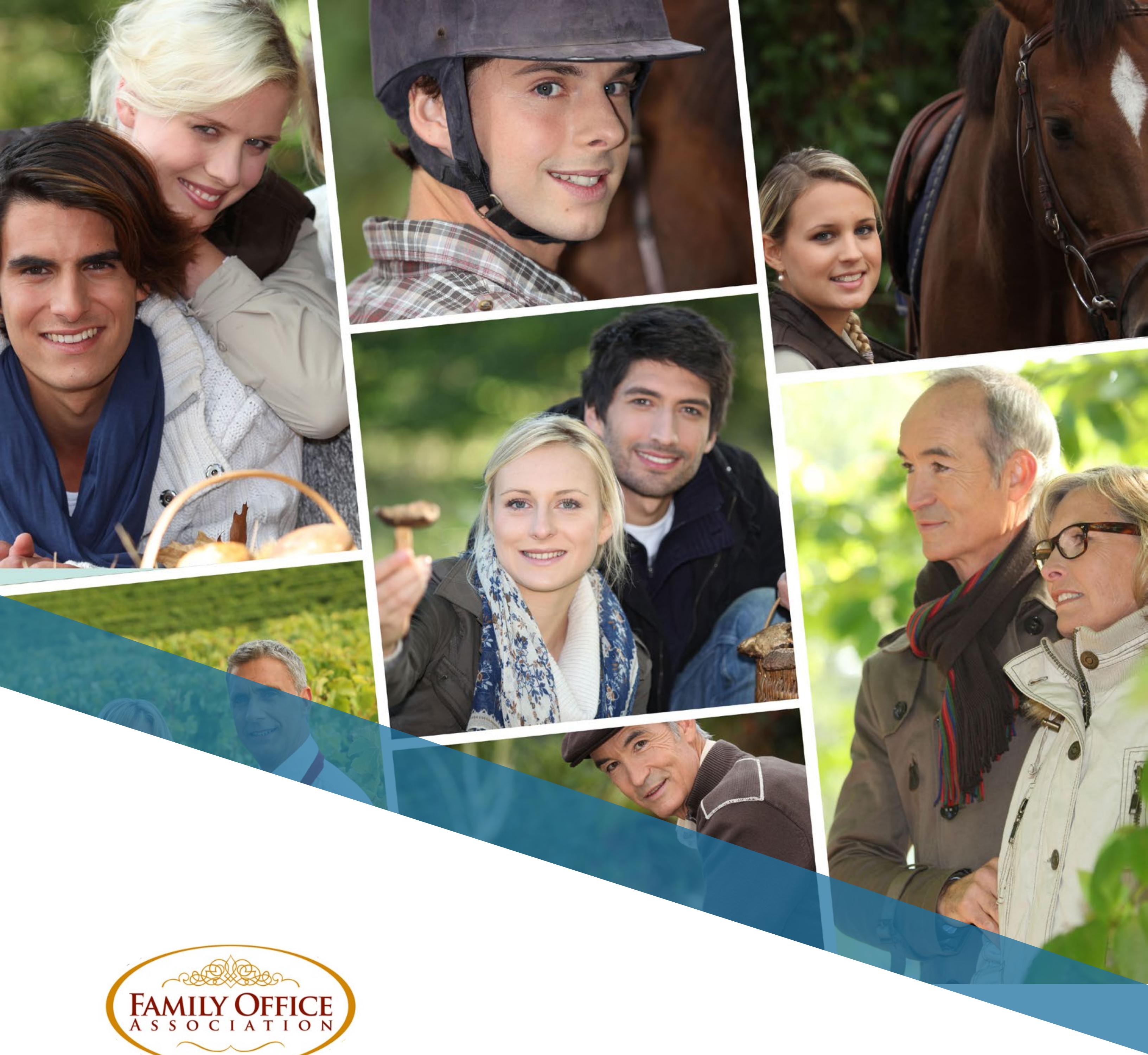

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How to Succeed by Really Trying

A Four-Part Template for Family Office Succession Success

THE FAMILY OFFICE ASSOCIATION

How to Succeed by Really Trying

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INTRODUCTION

A Four-Part Template for Family Office Succession Success

Succession planning (continuity planning) is one of the most challenging transitions a family office may face.

Few families set up a family office with the intention of winding it down after only one generation. Yet succession planning (continuity planning) is one of the most challenging transitions a family office may face. Not only is there the continuity planning for ownership and management, but the family governance elements required to create a seamless passing of the torch are not easy to implement. Although succession is one of the most widely researched and discussed processes in family business[1], very little empirical research and/or practical advice exists in the family office domain. Many questions remain such as: What are some of the most common challenges that family offices are confronted with when mapping out succession? Which families are better equipped to weather the storms so often inherent in family office succession? We outline the common succession challenges that many family offices face and offer four best practices to aid in successful succession. Finally, we close with a family office succession checklist for the reader to evaluate which are most germane for their own family office situations.

1 Yu, A., Lumpkin, G. T., Sorenson, R. L., & Brigham, K. H. (2012). The landscape of family business outcomes a summary and numerical taxonomy of dependent variables. Family Business Review, 25(1), 33-57.

SECTION 1: Common Succession Pitfalls

(1) The Ostrich Approach

Founders tend to love their family offices; family members wryly note that, like other businesses, it is like having an extra child in the family. Particularly when a Founder has sold an operating business, and the primary business of managing the wealth remains, they hold fast to their transitioned identity with the family office. It is who they are. Why should they plan for their own absence? Often the more successful the family office, the less interested is the Founder in working on a plan when he (or she) will no longer be there. Even though the inevitability of "being gone" is understood on a rational level, it is not a topic that the Founder likes to dwell on. Like the proverbial ostrich a common pitfall is to put the head in the sand and maybe it will all go away.

A relative of the ostrich approach is the "Manana" approach, or the continual delay of engaging in the succession process. The Founder agrees with all the wise advice to plan, but postpones it indefinitely with the response that it is just "not the right time." The problem is that under this approach it never is the right time.

What happens here is well-summarized by the adage "To fail to plan is to plan to fail." A classic book describing the Founder's conundrum about loving the work and not loving the idea of leaving it, The Hero's Farewell by Jeffrey Sonnenfeld,[2] lists four ways of "leaving." He calls the four types:

- (1) The Monarch
- (2) The Ambassador
- (3) The General
- (4) The Governor

The Monarch has enjoyed reign by autocratic rule. Why waste time on something useless like training a successor? Sonnenfeld writes "Monarchs do not retire but wear their crown until the end."[3] The Monarchs have no interest in a planned succession process. Short of a palace revolt they will not leave until forced to by death or disability. "Powerful new leaders [their replacements] are not groomed, but

2. Sonnenfeld, J. A. (1991). The hero's farewell: What happens when CEOs retire. Oxford University Press.

3. Ibid, pg 80

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(1) The Ostrich Approach

instead they emerge as rival candidates and are left to fight among themselves."[4] Family businesses are all too familiar with this archetype.

The second type, **the Ambassador**, is a rare creature in family businesses, but could give a powerful benefit, to a family office and to the family. The Ambassador leaves the active management position but remains connected to the business in an ambassadorial role. The Ambassador acts as a good-will representative out in the larger world, and as a respected mentor in the family. We know one Ambassador who has stepped "down" into the role of Chairman Emeritus, holding a respected very positive position. As a mentor the Ambassador values being consulted. A family is smart to encourage his sharing of long-earned wisdom. Part of that wisdom is to value a thoughtful succession planning process. The Ambassador is likely to spend several years observing and helping a trained successor. This is a model we would like to promote in family offices.

The third type, **the General**, even more than the Monarch, "cannot go gentle into the night." As Dylan Thomas wrote:

> "Do not go gentle into that good night,
> Old age should burn and rave at close of day;
> Rage, rage against the dying of the light."[5]

The General has no outside interests: his whole identity is in the battle, and in being the leader of the charge. The last project he would be interested in would be in choosing a successor. As Sonnenfeld observes, the General's "identity is intertwined

The General has no outside interests: his whole identity is in the battle, and in being the leader of the charge. The last project he would be interested in would be choosing a successor.

4. Ibid, pg 86

5. Thomas, Dylan (1914-1953) "Do not go gentle into that good night" ***https://www.poets.org/poetsorg/poem/do-not-go-gentle-good-night***

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with the trappings of office such as the uniform, the medals, and the power to direct the battle."[6] This type may resort to "causing" emergencies in the business, making it necessary for him to take control time after time.

Finally, we have **the Governor**, which is rare (unfortunately) in the family office setting. This is someone who is "above the fray" with many outside interests and no unnatural identification with the business. The Governor will rule well, and be glad to train successors. When the time for active rule is over, the General will move on to other adventures. Sonnenfeld concludes that the departing leader in a transition from the first to the second generation is likely to be (no surprise) a Monarch. The transition from second to third generation, with the cousin factions, is likely to have the style of a General, ready for all the internal fights. Sonnenfeld ends more positively, with the transition from the third to the fourth generation, giving a fairly optimistic conclusion: that transition "is likely to display ambassador patterns, marked by feelings of obligation to continue family values and to cautiously preserve accumulated family wealth."[7]

So the biggest hurdle is to persuade a Monarch to engage in a succession planning process. These archetypes provide a window into the most typical personalities of senior family leaders, but of course the realm of the family office is filled with bespoke models so variations abound.

> Sonnenfeld's archetypes (the Monarch, the Ambassador, the General and the Governor) provide a window into the most typical personalities of senior family leaders.

6. Sonnenfeld, J. A. (1991). The hero's farewell: What happens when CEOs retire. Oxford University Press, page 129

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(2) Lack of Family Alignment (Where's the Plan?)

How many families are clear about what they want? Very few. In good succession planning they must know first where they want to go (as a family). This takes work. Whatever they call it ("mission," "vision," or "goals") they need to first agree on the end goal. Otherwise, as Yogi Berra explained "If you don't know where you are going, any road will get you there." Perhaps a better question to ask is, "If you don't know where you are going, how will you know when/if you arrive?" It actually starts at a more basic level: to work together to agree on goals means they are committed to working together in the first place. Do they have that essential family "glue"—especially among two or more generations? Have they had regular, productive family meetings? Do they know how to raise these issues? Do they know how to reach agreement? Family alignment is kindred to Jay Hughes's concept of being a "family of affinity," or a family who is willing to sacrifice individual family member's pursuits in exchange for a path that achieves the maximum good for the family as a collective.[7] Alignment does not happen by accident, it happens only with intention and action by a family.

> A better question to ask is, "If you don't know where you are going, how will you know when/if you arrive?"

7. Hughes Jr, J. E. (2010). Family Wealth: Keeping It in the Family--How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations (Vol. 34). John Wiley & Sons.

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(3) Failing to Prepare Successor(s) (and to consider outsiders)

Part of the plan (see above regarding the need for a plan) requires a family undertaking to train family successors. Unfortunately many Founders are always too busy, taking care of urgent business matters and never get around to spending time on this; then they look around later and say they can't turn over the office to the next generation because those people are not qualified. And what if there is no family member (qualified or not) who is interested? So often in family businesses or family office they finally reach a point where someone says "we need to 'professionalize' the business/office" which is commonly understood to be code language for "we need to bring in outside professionals, not family members." If they wait until the need is obvious, they have lost a chance to prepare the family successors who may be the most interested. Not only is this another failure to plan, it is an obvious source of resentment and, sadly, of litigation. The other scenario is that by the time the invitation to a successor in the family is made, the family member very well may be down a different career path and the proverbial "window" of opportunity for them in the family office has passed.

If families wait until the need is obvious, they have lost a chance to prepare the family successors who may be the most interested.

SECTION 1: Common Succession Pitfalls

(4) DIY - No Help Needed

Part of any successful Founder’s psyche is the conviction that he (or she) knows enough to take care of any subject. There is often a mistrust of outside experts. The preference is to “DIY” (“do it yourself”). However, when family offices are polled on even a simple subject: “Are you able to have productive family meetings on your own?” the more frequent answer is “No—we need to have an outsider come facilitate to keep the peace.”

Even on simple subjects family offices often require an outsider to facilitate and keep the peace.

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(5) Family Office Future Will Be... Whatever (Que Sera, Sera)

Everyone does focus on succession planning for the Founder and other key family members—they are mortal and someday will not be here. So it is very easy to ignore succession planning for the family office itself. We look back at all the same pitfalls listed above: they all apply to the family office too. So what does the family want, long-term, for their family office? What is the succession plan for key employees of the family office? Succession of the founder is one exercise that has significant impact to the succession needs of other entities—operating businesses, family office, estate planning, among other key areas. It simply cannot be assumed that if you have resolved the succession plan for the Founder that you have addressed the plan for these other entities.

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Summary of Pitfalls

All of these pitfalls are tied nicely together. They outline some of the most common challenges that impede family office progress when it comes to succession. There's no rush to do succession planning, and when it might be needed we can take care of it ourselves. The time never comes. And if it did the family would have no idea of how to begin. Planning for the office itself is usually overlooked entirely.

SECTION 2

Four Part Template for Succession

The four crucial components of successful succession are:

- (1) Commitment
- (2) Communication
- (3)Champion(s)
- (4) Cultural Change

(1) Commitment

Let's begin at the beginning, with a question that is too often overlooked. What does the family want to achieve? What (if anything) are they committed to achieving? Tied into that is an exploration of what the family wealth really means to each individual. Each family has its own culture, and as Matt Wesley adapted Peter Drucker's legendary statement, "culture eats strategy for breakfast," to: "Family Culture Eats Strategy for Breakfast."[8]

Prior to digging into the multifaceted complexity of a succession plan, a family can greatly benefit from understanding what the collective intention is (or is not) when it comes to the family wealth and family office. Aligning interests and having a core vision that will propel the family into the future help mitigate conflict down the road. Beyond the succession plan for a founder, time spent at the beginning to really understand the family culture is essential to success. If there is apathy in the culture, success is unlikely. If excessive control held by one individual dominates the culture, affinity will never thrive. A best practice of families of wealth is deciphering the shared commitment of the family, and communicating it broadly (at age appropriate times).

Communication and education go hand-in-hand. A family who does an excellent job of disseminating information to an uneducated collective will not succeed, just as a wildly, well-educated family will not succeed unless a consistent, cadence of communication is provided. For families who have a General or a Monarch at the helm,

8. Wesley, M. and Robles, A, "The Power of Family Culture." Family Office Association. White paper, 2015.

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SECTION 2: Four Part Template of Success

encouraging and documenting their intentions and vision provides guidance for what they desire to unfold. The act of reaching out to owners (typically with the support of an outside consultant or facilitator) to determine broader commitments helps to unify the collective family and builds trust. Ambassadors and Governors may more likely convey their desires and intentions openly and willingly embrace their legacy and that of the family wealth to be shared with input of other family owners. Capturing this unified intention occurs typically in a vision statement and communicating it to the broader family sets in motion the succession process. At least it is a beginning.

(2) Communication to Build a Collective Vision & Design for Governance

The vast majority of family offices are created by one, perhaps a handful, of family members who originate the structure, concept, and intent of their family office as a unified front. Over time with the evolution of the family office, the increase in the number of family members coupled with the disparate planning needs and considerations, make it easy for the family office to become a crutch and a "catch all" hub for the general convenience of the family. As one generation is looking to pass the baton, it is invaluable to engage next generation owners in the "business" of the family office and to provide insight, wisdom and a clear line of sight to governance practices. Perhaps the next generation is exposed in a more limited, observational manner at first, the idea is not to concede control before they are prepared for what is ahead. However, a powerful exercise is conducting long-range planning every 3-5 years to vision out the next 10+ years and to invite broader family participation into what the family office of the future will look like.

Once the family has become clear (and unified) on its family office vision, they can begin to create a strategic plan to execute on that vision. The design of the strategic plan is not a one-time planning session, and many family offices create a sub-committee to consider specific planning elements to the future design of the family office. A saying that rings true is, "No involvement, no commitment"… if the family office structure and design is simply handed down, it often struggles to remain relevant within 5-10 years of the passing of the prior generation. Yet, if senior family leaders join with next generation family members who display the interest, experience, education and preparation, renewed energy, and commitment to the evolving structure and leadership, then design can take form.

Effective governance (decision-making) of the family office and of the family comes from a combination of three key characteristics: transparency, accountability and participation. Transparency means a commitment to avoid secrets and cynicism. In the governance planning each family member should agree to speak in an open and honest way. For accountability, each family member who has agreed to work on any project must be held accountable for effort and progress. Finally we believe that no governance plan will be successful unless all of the affected

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parties are active participants in building the governance structure.

A great place to start is by creating a family constitution, involving as many participants as possible. A hallmark should be flexibility, as mentioned in our closing.

(3) Family Champions

Successful families often have a "family champion." Joshua Nacht conceived this concept and defines the family champion as "a rising generation leader who acts as a catalyst amongst the non-operating owners to bring them together as stakeholders and to engage in effective ownership."[9] The family champion typically has a unique ability to garner the admiration of his peers, gain the respect of the senior generation and is able to inspire future generations of the family. They bridge the generational gaps both above and below them.

The word "catalyst" is perfect to define the impact of the family champion. They typically provide energy, drive, and inspiration to various generations of the family. They foster the stewardship principle and desire to bridge generational differences and find a path forward united. Be clear, Nacht does not assume that the family champion has an explicit role in the organizational chart of the family office, rather they may play a role on the family council or family assembly shepherding the culture, dynamics, and values in the family. Often when first identified, the family champion is not the CEO or president of the business entity or family office; however, they are a non-operating owner who may take on a significant leadership role within the family-owners and eventually develop into a family leader of the family office.

Family champions tend to have a keen knack for enfranchising family owners. They are diplomats at their core, but are also drivers and doers who are appreciated because of their ability to reach across the table and galvanize a family group. Yet the family champion, like the broader family, requires additional support, education and mentoring for them to be tracked to succeed in a leadership role. It is simply not enough to be good at bringing the family together, and building consensus, a family champion has to also learn from family leaders as well as outside the family domain. Often family offices benefit from transitional leadership when one there is not a successor ready to take the helm, but one who is ready to shadow and learn on-the-job.

Salvato and Corbetta share that family leaders who have an opportunity to shadow and learn during a transition via mentoring, role modeling and leadership coaching from family leaders and advisors have an advantage in the succession process.[10] Mapping out a "success(-ion)" plan for the family champion including education, skill development, mentoring opportunities, executive coaching, outside employment as well as family governance awareness helps to demonstrate to

9. Nacht, J. G. (2013). The family champion: The need, nature, and value of a unique role in family enterprise systems. Unpublished manuscript, School of Organizational Transformation and Leadership, Saybrook University, San Francisco, California.

10. Salvato, C., & Corbetta, G. (2013). Transitional leadership of advisors as a facilitator of successors' leadership construction. Family Business Review, 0894486513490796.

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family owners that thoughtful, practical steps 1-5 years prior to a leader stepping aside have been invested into the human, intellectual and social capital of the family champion to prepare them for the role.

Families who embrace the emerging family champions in successive generations have a unique "window" to extend the invitation, set in motion a plan for professional development, and design a road map for their "success plan" into a leadership position. When a senior generation waits too long, then the family champion may get tracked into a career path or profession that is difficult to break away from without creating resentment and friction. If approached too early, the family champion may not develop enough autonomy and leadership experience outside of the family office. Starting the dialogue once the family champion has display personal and professional initiative, resourcefulness and passion for the family unity is recommended (typically at ages in the later 20s, 30s, early 40s).

(4) Culture—Change to Innovate, Innovate, Innovate

Enterprising, cohesive multi-generational families are never static. Their culture is filled with energy and enthusiasm to constantly improve; not to settle. In these types of families, embracing change and desiring to innovate is a central premise of the family culture. One family office head interviewed for a family office research study shared when asked about his entrepreneurial success that he was nothing special, rather his entire family demonstrated "serial entrepreneurial" successes over several generations; in other words, he was just one of many entrepreneurs and he also shared that the family had several spectacular failures, but that the drive was always there to persevere and never quit. Failure to many is viewed as a weakness, but in a family culture of innovation and entrepreneurial spirit, it is simply part of the learning curve and the longer journey.

Why is innovation so key to succession planning? Because when families fail to innovate, adapt and continue to be wealth creators, sustainability of the family office long-term becomes increasingly difficult. When wealth becomes eroded generation after generation, family office leadership succession becomes increasingly challenging and the culture within the family office suffers. Financial capital erosion is symptomatic of larger more concerning issues that could stem from entitlement, a fear-based family culture of wealth preservation at all costs, or lack of spending controls—all of which put tremendous downward pressure on the family office and threaten the long-term viability of the family office. For the succession process, a candidate coming into is family office on the decline has a much higher degree of failure, than coming into a family office that is innovating, and thriving.

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Conclusion

In closing, there are several stumbling blocks that thwart well-intending families from managing effectively their family office succession. From being in denial that succession needs to occur, to fear of involving outside advisors, to moving the family through road blocks, to lack of family member alignment with the long-term family office goals; the list of pitfalls to succession is many. This paper provides a framework of 4 'Cs' for successful succession focused on commitment, communication, champions and culture change. These 4 'Cs' are foundational to almost every successful succession process in the family office and evidence that families who embrace change, are open to adapting and evolving their vision over time and who are committed to aligning family interests have greater opportunities for their family office to thrive over generations.

This paper provides a framework of 4 'Cs' for successful succession focused on Commitment, Communication, Champions and Culture Change.

FOUR PART TEMPLATE FOR SUCCESS
Succession Checklist

- [ ] **Address Challenges**
  Determine what/if any roadblocks are impeding getting started with the succession process and address these challenges with the help of trusted advisors, family office consultants and/or your board.

- [ ] **Understand Expectations**
  Gather an understanding as well of the expectation of family member stakeholders desire when it comes to the ownership, management and/or leadership succession in the family office.

- [ ] **Create a Plan**
  Set a clear intention to the future succession of ownership and leadership for the family office and set a tentative time frame for execution that gives adequate time (3+ years).

- [ ] **Engage Stakeholders**
  Engage family members, trusted advisors and key employees in the process of defining the future vision of the family office

- [ ] **Choose a Successor**
  Understand if (1) the talent exists in the family for a leadership role (2) the majority of family is supportive of this candidate and (3) the candidate is interested and educated on the role and responsibility and/or could be groomed in the interim

- [ ] **Consider the Retiring Executive**
  Create a transition plan for the retiring executive which includes:
  - [ ] Retirement timeline
  - [ ] Plan to honor their achievements

- [ ] **Create a Transition Plan for the Incoming Successor**
  Build a transition plan for the successor which includes:
  - [ ] An appropriate welcome/transition
  - [ ] Identifying required education and executive coaching
  - [ ] Arrange meetings with all heads of households and key leadership to build rapport and establish individual goals
  - [ ] Tapping strategic mentors and advisors to aid, counsel and support succession

FOUR PART TEMPLATE FOR SUCCESS

Succession Checklist, Cont.

- [ ] ## Create a Roadmap for the Successor

Create a success roadmap for the successor which includes:

- [ ] Clearly defining the roles, responsibilities and metrics by which the successor will be evaluated for the first year and subsequent years
- [ ] Document key milestones for the first year
- [ ] A formal plan for “postmortems” when missteps occur to understand what went wrong and to “right the course” for future scenarios
- [ ] A communication plan, including channels and frequency, to regularly inform family members and key constituents of the accomplishment/key finding for the first year

- [ ] ## Address Employment

Address employment issues including:

- [ ] Setting expectations and requirements for family members to be considered for the role
- [ ] Establishing competitive pay

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Kirby Rosplock, PhD is a recognized researcher, innovator, advisor, author, facilitator and speaker in the family business and family office realms. As the founder of Tamarind Partners, Inc., a research, advisory and consultancy practice that works with families, advisors and institutions connected to the family office market, Rosplock provides leading edge insights and knowledge to the family office domain. Rosplock is also co-founder and advisor to Bonaventure Equity, a direct investment advisory and consultancy firm to family offices.

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ABOUT the FAMILY OFFICE ASSOCIATION

Family Office Association is a global community of ultra-high net worth families and their single family offices. We are committed to creating value for each family that we serve; value that grows wealth, strengthens legacy, and unites multiple generations by speaking to shared interests and passions. FOA has the resources to solve your most difficult challenges and help you achieve your collective goals: to invest intelligently, give strategically, and learn exponentially.

FOA is the community leader in serving all the key imperatives for ultra-high net worth families, respecting your privacy but enabling an intimate community of global families like yours. Our organization delivers private education and networking opportunities, proprietary research, and access to salient thought leadership that will interest all generations of your family.

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