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SUCCESSION PLANNING THE NEXT GENERATION

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SMOOTH HANDOVERS

With the exception of a few, such as the Rockefellers, which dates from the 1930s, the majority of family offices have been founded in the past 20 years. In the UK, their popularity has increased over the past decade because of changes to the trust regime that have reduced the appeal of these structures for families. This means that even if the wealth they manage is old, few family offices have gone through the process of transitioning from one generation to the next. So how should they deal with succession?

One of the main issues is working out how to deal with the family members themselves. "Some people really do plan for succession and others just ignore it," says Sabine Rau, professor of family business at King's College London. "It seems to be something inherent in the incumbent generation; something to do with the personality and experiences of the family." She once heard a patriarch begin a sentence with the words, "If I ever die...". "Someone in that state of mind will not plan," she says.

Such denial of reality is not unusual. Matthew Fleming, a fifth-generation member of the investment and banking Fleming family and partner at multi-family office Stonehage Fleming, says he once heard the head of a family describe a 59-year-old as "nearly ready".

Another problem is that the needs of the individual generations can differ hugely. The transition from the first, entrepreneurial generation to the next is always the biggest change, as the family's affairs usually become more professionally managed.

Recognising this fault line is the first step to mitigating problems. It is inevitable that the family office will change during succession, says Alistair Morgan, chief executive of Mayfair Private, a firm that advises wealthy families. "The family office is generally built around one key family

member, and although it inevitably ends up providing services to others in the family, it is constructed with that person in mind," he says. "When the next generation take over they will have different needs and requirements."

Succession is easier if the process happens slowly. "One way to smooth this is to always have two generations on board, to have the next generation involved early on so that when the one in command leaves they have been there for a while," says Emile Zakhia, head of consulting at Quilvest Private Equity, which invests in private equity for the seventh-generation Bemberg family, the Argentine industrialists. "Then they are included in the process, know how it is run and have been involved in the hiring of the staff."

The next family head should also be eased into the job. "They should have a seat at the table, then a voice at the table and then they can change the rules at the table," says Francesco D'Amico, managing director of Quilvest Switzerland, the multi-family office of Quilvest Group. "Only once you master the rules can you change them."

John Davis, who runs Cambridge Family Enterprise Group, a US advisory firm, says the family office cannot be allowed to function separately. "Consciously or unconsciously, the family office managers often make themselves indispensable by creating a 'hub-and-spokes' method of communication where they disseminate information from a central position," Davis explains. It is far better "if they are integrated into the family's other programmes, developing the next

'SOME PEOPLE
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FOR SUCCESSION
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Spanning generations
John D Rockefeller Sr
with his great-
grandchildren John
and Elizabeth at his
Pocantico Hills estate
in New York

generation, for instance, so they can demonstrate they are interested in the family's sustainability".

More and more UK families are using family investment companies, which are excellent structures for dealing with governance issues, says Dermot Callinan, UK head of private client at KPMG, the consultancy. "This determines the constitution of the board, objectives for the company, a system of reporting back and providing information, and a structural handover of ownership, non-executives and advisers. There is process and accountability and it helps get everything clear and correct at the beginning, with a structure and a purpose that complement each other."

This structure allows the older generation to place equity into a trust, while retaining their own voting rights. This separates the ownership of the company from the money. "[There is] good succession planning going on, but there is also clarity about who is in control and this can be passed on when the time is right," says Callinan.

Making sure all parts of the family mesh is vital if succession is not to cause the family office to grind to a halt. Quilvest notes that a family office often evolves from an administrative organisation to dealing with wealth and estate management. The next stage is to integrate it into the family's wider education and planning for the next generation.

Ultimately, it is a question of transforming the issues surrounding money into ones about the other sorts of wealth families have, says Fleming. "You have to think about financial, cultural, social and intellectual capital," he says. "If a family's decisions are based on financial capital alone, I don't think the family office is going to be there anyway." ☺

*Jeremy Hazlehurst is founder of
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