The ASTER Club

MOORE STEPHENS

Succession planning for business families and family offices

Joint report by Moore Stephens and The Aster Club

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Introduction

Succession planning is a vital activity for business families and family offices. It supports the widespread goals of preserving family wealth, benefiting charitable causes and having a positive social impact. Yet, as our survey has found, too few family offices have put succession plans in place.

We conducted a survey of the family office community, seeking their views on a range of issues related to succession planning. The survey found high awareness of the importance of making a succession plan, but a widespread failure to act. This is a concern, because of the time it takes to form and implement a strategy to ensure the smooth transition of decision-making responsibility to the next generation. For example, family decision makers recognise that their successors need certain qualities, such as leadership skills. Ensuring the chosen successors develop such capabilities requires planning ahead.

Family members may not be fully aware of some of the potential road bumps they could encounter as a result of weak planning, governance and operating procedures.

This report aims to encourage discussion of such issues within families and family offices – and to increase the potential for families to preserve their wealth and pass it on to future generations efficiently and effectively.

Who we surveyed

We invited responses from the family office community, including family members, family office executives and advisers to family offices. Participants came from all groups, and with an international focus, including the US, Canada, Switzerland, UK and Saudi Arabia, together with a range of other locations in mainland Europe, South America, Asia and Australasia.

Survey findings

"Respondents reporting the lack of any succession plan identified a number of barriers to succession and development planning"

Succession planning is important – but barriers get in the way
88% of respondents think that a succession plan is extremely important for families. Despite this, 38% of respondents say no succession plan is currently in place.

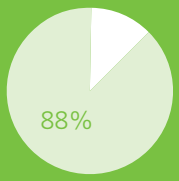
Respondents reporting the lack of any succession plan identified a number of barriers to succession and development planning. Topping the list is the fact that the decision maker may not be ready to hand over authority: 31% of respondents where no succession plan exists see this as a barrier.

Other significant barriers to succession planning include difficulties with reaching agreement and decision making, identified by 22% of respondents without a succession plan. 21% of respondents identified the lack of a clear approach as a barrier, 19% say timing is an issue. Only 8% indicated that budgetary issues created a barrier.

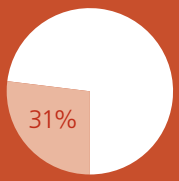
Succession planning is a sensitive matter. Consider a scenario where the decision maker is the entrepreneur who built up the family's business and wealth. This individual is highly successful and used to making decisions. The concept of handing over the reins to the next generation may be difficult or uncomfortable. However, it is important to prepare for the future and make plans for how the transfer of responsibility to successors will be handled.

Succession planning is, after all, about planning: it does not represent an immediate handover of power or authority. It involves looking ahead to a desired goal – in particular, the successful continuation of the family's wealth.

88%
think a succession plan is **extremely** or **very important**



31%
not ready to hand over authority



38%
have **no succession plan** currently in place

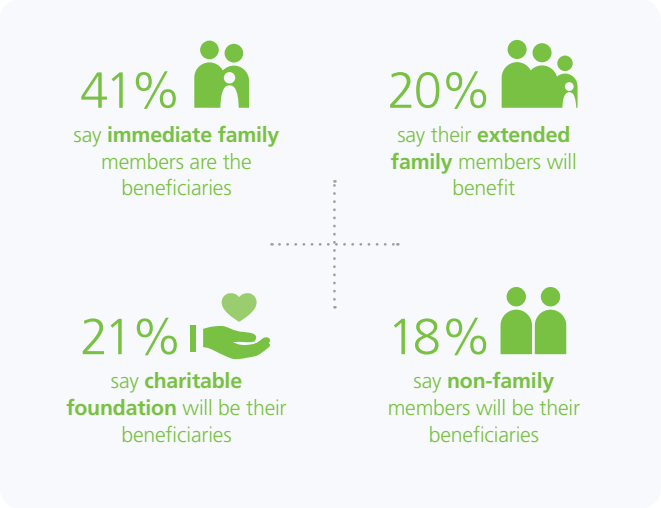
"The desire to have a social impact and to benefit others beyond the family realm is a characteristic of many families, and perhaps particularly of younger generations seeking to make their mark in new ways"

Succession planning is intended to preserve family wealth

For 28% of respondents where a succession plan is in place, the objective behind it is to preserve wealth for family members. This is the most widespread objective identified in the survey.

Other important objectives of succession planning include:

- continuing the family business, identified by 20% of respondents with a succession plan in place;
- securing the future success of family members (19%);
- building a personal or family legacy (17%) and creating social impact (16%).



Family members are, not surprisingly, the main beneficiaries of succession plans. Among respondents reporting a succession plan to be in place, 41% say immediate family members are the beneficiaries and 20% say extended family members will benefit. However, 21% indicate that charitable foundations are beneficiaries of the succession plan and 18% say that non-family-member executives stand to gain. The desire to have a social impact and to benefit others beyond the family realm is a characteristic of many families, and perhaps particularly of younger generations seeking to make their mark in new ways. Succession planning is therefore important to ensure that necessary structures, processes and resources are established so that families can achieve their goals fully and have maximum impact.

Successors require a range of qualities

28% of respondents with a succession plan see leadership as a quality that successors should posses. Other important qualities include business experience (20%), education (18%) and technical knowledge (15%). And 14% think that successors need to have a certain position within the family.

Families are taking steps to prepare successors for the future. 32% of respondents with a succession plan in place say successors are being involved in the family business, family office or family council, while 30% are using coaching and mentoring to help successors develop the skills and qualities they need. A fifth say the successors are gaining more education in the relevant field, while 18% are preparing successors through on-the-job training.

It is vital that today's decision makers within families allow sufficient time for their successors to develop the skills and gain the experience they will need. For this reason, succession planning should be undertaken at least three to seven years before any transfer of responsibilities is desired. Education needs to be balanced with valuable real-life experience. It is also important to ensure that, when intended successors are involved in the family business, they are given the opportunity to gain real experience and objective feedback and to learn from their mistakes. Senior family members should consider: is it ever possible for a son or daughter to be treated like any other employee? Even where non-family members are encouraged to do so, they can find this hard to achieve in reality. For this reason, gaining experience outside the family firm can sometimes be particularly powerful.

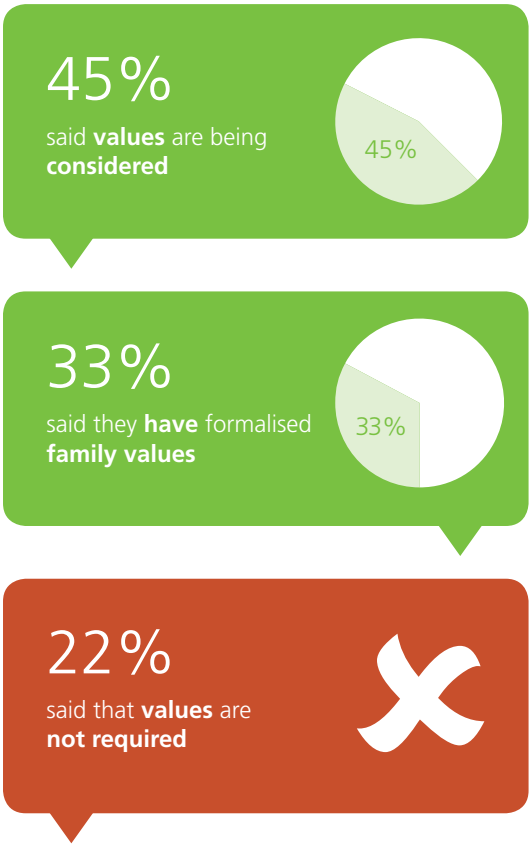
"Establishing formal family values is without question a wise exercise for wealthy families. These values represent the guiding principles that will inform all family activities and decision"

Too few families have formalised family values and governance
A third of survey participants have formalised family values (33%), while another 45% say values are being considered. Around a fifth (22%) say values are not required.

Respondents who do have formalised family values identify many benefits. The respondents with formalised family values say these help them to bind the family together (40%) and 34% say family values provide guidance on issues. In addition, 26% believe their formalised family values help them to make key decisions.

Establishing formal family values is without question a wise exercise for wealthy families. These values represent the guiding principles that will inform all family activities and decisions. They provide a sense of stability even during unstable or fast-moving times.

Less than a third (29%) of all respondents have a family constitution, governance or family employment rules in place. Some families may question the need for such arrangements on the grounds that they are not corporations or governments, but are naturally tied together by family relationships. However, establishing a family constitution and governance procedures can help to ensure there is shared understanding of how the family seeks to operate and that decisions will be taken in an appropriate manner, for the benefit of the family. This can help to avoid unnecessary disagreement and disharmony – particularly as the family increases in size, for example. Family employment rules are useful: they specify the competencies required of family employees and ensure a clear distinction is maintained between management and ownership rights. Family members may have ownership rights and responsibilities, but those should be distinct from management rights. The two can become blurred in the absence of clear ground rules. Family employment rules (and governance procedures) need to be kept up to date to reflect the changing expectations of family members or of society at large.



"The most popular issues currently discussed at meetings with family members are forward-looking investment strategies, discussed by 25% of those holding meetings, and historical reviews of financial information"

Meetings could be more regular and strategic

Less than half (48%) of all respondents have regular meetings with family members, although another 45% have meetings 'when required', while 7% never have regular meetings. Scheduling regular meetings is recommended: from a practical perspective, regularity increases the likelihood of full attendance. More strategically, convening ad hoc meetings 'when required' is a reactive way to manage family affairs, whereas holding regular meetings encourages a more proactive approach. Family members are more likely to discuss more general, strategic issues in regular meetings. The result is that the family is better prepared for the future.

The most popular issues currently discussed at meetings with family members are forward-looking investment strategies (discussed by 25% of those holding meetings) and historical reviews of financial information (23%). Succession planning is only discussed by 18%, as are family tax positions and other legal issues. Only 10% discuss hot topics such as cyber security or the Common Reporting Standard (CRS) and the US Foreign Account Tax Compliance Act (FATCA), both of which increase global tax transparency by enabling jurisdictions to share financial information on individuals. The omission of these topics from the agenda at many families' meetings is a concern as such issues could affect many families and their wealth preservation strategies.

Defined operating processes and objective board members add value

Families are most likely to have defined processes for financial activities (34% of all respondents) and decision making (28%). However, relatively few have defined processes for managing the performance of individuals and the organisation (18%) and for people development (16%). Given the importance of people development, particularly the development of successors, defined processes would be beneficial.

As noted, 28% have defined processes for decision making. However, 61% of all respondents say decision making on strategic issues is guided by a strong leader who makes decisions on behalf of the family. In only a third of cases are decisions based on consensus, while 10% of respondents say decision making is based on a majority vote. These findings reflect the strong control that many senior family members – particularly the original entrepreneur behind the family's wealth – have on decision making. It may be helpful to review whether processes in place for decision making are operating as they should and whether any greater time spent on building consensus would benefit the family as a whole.

A majority (64%) of all respondents have non-family members at board level. In general, introducing non-family members to the board is beneficial. Such individuals can bring particular expertise and experience, as well as an objective viewpoint unaffected by family relationships and emotional responses. However, the objectivity of an individual should not be assumed purely on the basis that they are not a family member. The closest confidant of the key decision maker is unlikely to provide an objective voice, for example.

Conclusion: time to prioritise succession planning

Succession planning is a vital activity that all family offices should undertake – but one they often find difficult to achieve successfully. It is, as this report has identified, a sensitive activity.

Families by their very nature contain a web of relationships – between different generations and different members of each generation, and with external parties such as confidants and key advisers. These relationships are shaped by shared experiences and sometimes differing emotional responses to events. Objective decision making can therefore be difficult. As individuals we may think we are behaving in a certain way, when what we are actually doing and the impact of our actions is very different. It is therefore important to make time to reflect on whether what we think to be the case really is the case.

Perceptions of the status quo can also differ between members. The entrepreneur who built the family wealth may fail to understand the frustrations of a son or daughter wanting to make their own impression on the family business or other family activities, but denied the freedom to make decisions, and learn from mistakes. Junior family members may believe their high level of education qualifies them for more responsibility than they can yet handle. Extended family members with ownership rights may expect more influence over management issues than is rightly theirs. Assumptions can too easily be made about the family's goals and values, without clear discussions and any consensus.

Many of these issues can be challenging to address by family members alone. Sometimes building mutual understanding and agreement requires the input of an objective external adviser, one who can see the viewpoints of different family members while also keeping the family's best interests at the heart of discussions.

Only through careful planning can key goals such as preserving family wealth be achieved. By establishing agreed family values, governance procedures and vital processes can the foundations for a secure future be built. Only by looking ahead can senior members and key decision makers ensure that their successors have the time and space to develop the qualities they need to be able to step up to senior roles themselves.

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Engaging the next generation

Everyone benefits from exercise regardless of age or physical ability. Despite knowing it is a vital activity, many struggle with the motivation to start. This is where the knowledge and action gap lies. We often have the knowledge to choose the right path. But we need to be aware of the 'how'.

The gap between knowledge and action

The succession planning survey clearly revealed the gap between knowing and doing. 88% of respondents surveyed understand that succession planning is important. Yet, 38% do not have a plan in place.

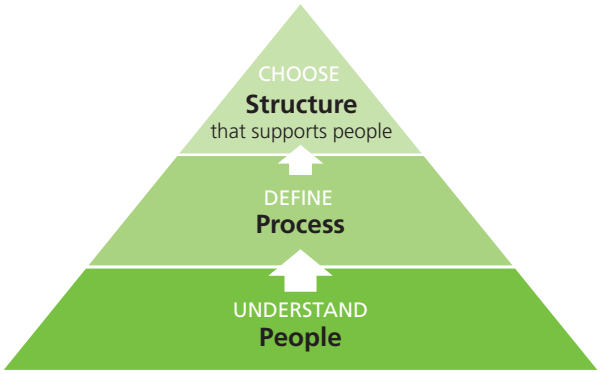
31% of those without a plan said that the family's current decision maker was not ready to hand over authority. The decision maker is often the individual who has built up the family's wealth, or has been responsible for it for a number of decades. As a result, the decision maker may be reluctant to hand over control of what may be a lifetime's work.

The knowledge and action gap can be contributed to three factors: not knowing how, not having strong motivators or not having robust incentives.

How to start a succession plan

Succession planning has three dimensions: structure, process and people. To start with the people element is most straightforward, followed by process and structure. It is easy to fit a structure around people but difficult to find the right people for the structure. The kind of people will define the processes and the structure that fits. Competent and ambitious individuals often prefer a flexible process and structure so that they can fully apply their knowledge and experience. Less experienced individuals may require a predefined process and solid structure to support them. The number of people will also affect process and structure, smaller more flexible and larger, more rigid.

The succession planning structure includes legal structures such as trusts, foundations, and corporations. This could include family office, and operational structures such as the family council, investment policy, family governance, etc. Succession planning process includes communication protocol: What information is shared to whom? How? How often? Who makes decisions and what benefits are distributed to whom. People aspect of succession planning includes enhancing existing leadership, managing leadership transition and developing future leaders.



Motivators for succession planning

This is the critical success factor for succession planning. What motivates a current decision maker to look for a successor? And what motivates other members of the organisation to support the transition? Any succession planning that lacks strong motivators is not likely to succeed in the long term, nor successfully sustain throughout the generations.

Some leaders are willing to hand over the business to a successor. However, the person in line may not be ready or there can be a lack of someone suited to the position. Most of the time though, there is no lack of successor candidates. However, the leader may not have a strong motivator to move on, as they have not yet found something else to keep them engaged and active. Finding strong motivators for a current leader to make a transition is the first step. Once the motivation is in place, finding and developing a successor is a fairly smooth process.

"Succession planning is an ongoing and evolving process which takes long-term commitment. When something changes in a structure, that triggers a change in processes which affect people"

Separately, for the successor, one big hesitation can be operating in the shadow of a previous leader. To counter this, a strong motivator is the opportunity for the person in line to make their own mark while respecting the previous leader's achievement. Managing a transition from one leadership to another is always challenging as it involves a group of people who may have conflicting motivators. This is where having an objective advisor is helpful to manage any sensitive positions. Introducing an advisor to support succession planning can facilitate the process, provide objectivity, broaden perspectives and potentially diffuse any internal differences of opinions.

Incentives for succession planning

Succession planning is an ongoing and evolving process which takes long-term commitment. To manage this dynamic project effectively, it is appropriate to have incentives at every benchmark. The incentive should be meaningful enough to motivate individuals to continue to support the succession planning process, even if it is gradual. Each family and organisation is different, and an in-depth understanding of the members and organisation is required to come up with constructive incentives. These can be both tangible and intangible. Often, recognition, status or social aspects are more highly sought after incentives than any financial gain.

Despite the many challenges involved, considering the family's long-term motivators, incentives, objectives and capturing these in a succession plan should be an essential part of strategic planning for all wealthy families and family offices.

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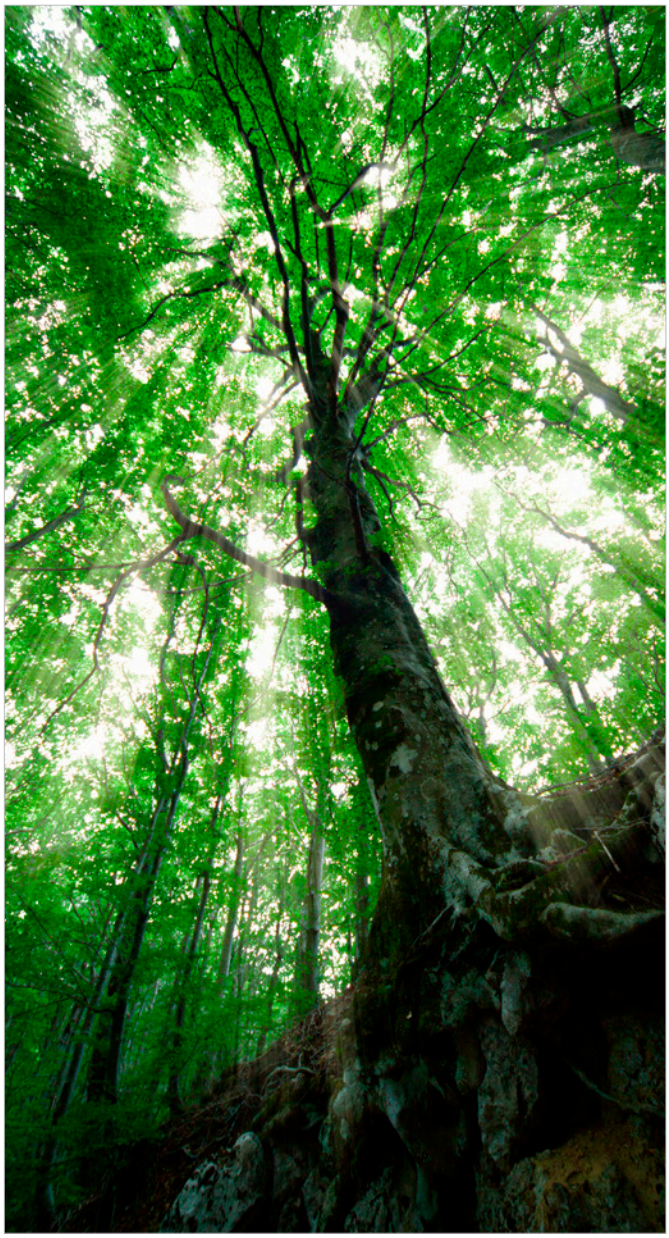

MOORE STEPHENS

Moore Stephens

Moore Stephens helps family offices and their principals thrive in a changing world. We have the experience and expertise coupled with an international outlook.

We understand that balancing family and business interests is not always easy, especially as one can impact significantly on the other. We act for many clients through several generations and help them adapt their structures to suit their personal circumstances and the changing environment.

Our family office team provides a range of services, from financial and tax advisory through to assurance, regulatory consultancy and compliance, aimed at both individuals and family structures and funds. Our aim is to help our clients structure and protect their wealth effectively.

Moore Stephens International Limited is a global accountancy and consulting network, headquartered in London. Our business is built around helping businesses thrive as their circumstances change. In order to help you expand across the markets you have identified as areas of growth, we will coordinate advice from a global network of offices in more than 100 countries.

Clients have access to a range of core and specialist services including audit and assurance, tax compliance and advisory, wealth management, private client consultancy, corporate finance, management consultancy, restructuring and insolvency, forensic accounting, business support and outsourcing.

The ASTER Club

The Aster Club

The Aster Club is a private membership club for multi-generation members of business families. Its members are active business owners with keen interests in connecting with global families, growing the business, sustaining wealth, and preserving family legacy. To date, the Club has more than 50 families in its community representing more than 30 industries from six global regions.

We support business families in every step of the succession planning process ensuring that the people, process and structure aspects of the business are ready for unexpected or planned changes in the family business. Our succession planning experts have strong experience in supporting business families to draw up a viable succession plan. Our development programs for future leaders such as Assessment & Development Program, Young Leaders Program and Future Leaders Meetings help future successors to develop leadership and entrepreneurial skills while building strong relationships with peers who are going through the same transformation. All of our global meetings include sessions about succession planning. Founders and current family business leaders enjoy hearing the succession planning experiences of different families. They discuss lessons learned and best practices that can be applied to their own family.

The Aster Club facilitates activities to help business families to grow and sustain their business and wealth. Our members use our business matchmaking services when they want to expand their business, collaborate with other families and enter new markets and regions. The families have access to our curated business and direct investment opportunities from The Aster Club members, and other exclusive sources including reciprocal clubs.

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