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Keeping 'the family' in the family office

The key to a successful transition rests with the senior leader's ability to delegate responsibility and control to the next generation.

By Rebecca A. Meyer

OF THE MANY CHALLENGES facing families and family offices, none is more important than the concept of sustainability to ensure that the family's resources are both preserved and augmented as the family enterprise passes from one generation to the next. According to Rodney Goldstein, chairman and managing director of Frontenac Company, a Chicago private investment firm, "A majority of family-owned businesses don't have a succession plan or a long-term strategic plan, and two-thirds have not chosen a successor." Similarly, most families lack a plan for transitioning their wealth structure across generations.

One key to a successful transition rests with the ability of the patriarch or matriarch to delegate responsibility and control to the next generation of leaders. This often means treading a thin line between preserving his or her vision for the family and inviting those who come after to participate in the creation of a shared vision. As a single family office that evolved into a multi-family office, Pitcairn is sometimes called in to advise a single family office in a specific area of expertise, like investments or administrative and trust work, only to end up consulting on non-financial issues that affect the family's ability to reach financial decisions. I remember one example, in which Pitcairn was retained for advice regarding investment decisions and cost management. It wasn't long before we realized that generational transition issues were hindering the family office's ability to develop an investment strategy.

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In many ways, it reminded me of my early efforts to get my husband to collaborate with me in the kitchen. I would ask him to be a full partner in the preparation and creation of the meal when I had already set the full menu. There wasn't a lot of room for him to add his creativity. I needed to learn to give up control of the menu and let him participate from the get-go. I also needed to learn to hold my tongue when he decided to crush the garlic instead of mincing it (the way I did). I should have celebrated the different ways to make good food.

Seeking next-generation involvement

The Gregg single family office was run by Mark, the former CFO of the company, which had been founded by the family's 70-year old patriarch, Robert. (Names and details have been changed.) Mark had a 25-year relationship with Robert and was accustomed to advising him and implementing his decisions. At this stage of his life, Robert wanted his two children to take leadership roles in the management of the family office, particularly with regard to the family's investment strategy. Ironically, however, this patriarch controlled the relationships and processes that would enable them to do so.

Although Robert's "kids" were now 38 and 40 and both married with children (and even though one had an MBA), Robert had continued to roll their personal assets into new trusts and to make all of the decisions about the family office in conjunction with Mark. Neither of the children received any distributions from the family wealth structures, nor were they compensated for their time or travel to meetings. Now, with the family's second liquidity event following the sale of their business, Robert became intent upon having his children take an active role in managing the family's wealth. After all, he reminded them, he would not live forever.

To this end, Robert held quarterly meetings with Mark and his adult children to provide them with a venue for participating in the decision-making process surrounding the family office and the investments. He expected that his kids would come to the meetings well prepared and generate suggestions that reflected their interest in the management of the family office. Instead, they showed up begrudgingly and were not as prepared or participatory as Robert had expected. In fact, nothing changed. Robert and Mark continued to make decisions without the next-generation members, moved ahead with projects and reported on what they had done.

In truth, there was no incentive for the second generation to step up to the plate. The menu was set long before they were invited into the kitchen. Although Robert genuinely wanted his offspring to participate fully in setting the investment strategy, he had Mark design an investment program and a plan for hiring staff to implement that strategy. He had even contributed novel ingredients in the form of the family's new liquidity. The problem was Robert had done so at a time when the food was already in the oven. And while any new flavors added by his kids might have made the dish taste even better, there was no way for the ingredients to be added at this stage of the process. Robert wanted his kids to help refine the strategy he had already created without their consultation. He wanted them to endorse and ultimately implement his vision for the family office, a vision in which they had little interest and certainly no stake.

Families that develop a long-term plan with specific actions and timeframes manage the challenge of a generational transition with much greater success.

Getting 'unstuck'

This family was stuck, in more ways than one. Decisions needed to be made around a pool of assets that combined shared family and individual household money. There was a plan on the table to increase the staffing and costs of the family office, a long-term strategy that would ultimately be paid for by family members from their individual assets. It is easy to see why the kids were not eager to spend more money and time on the family office when they were not part of the decision-making process. Progress had been stalled by the family dynamics. The more the father demanded, the less he got.

We helped the family and its family office to develop a plan—not only for the assets, but also one that defined roles and helped the family establish new patterns of working inter- and intra-generationally. The first step was to separate the shared assets and the household assets so that everyone could understand what resources were available to them. We worked with the CFO and the family to set an investment policy for the shared assets and then with each household individually to develop personalized financial plans and investment strategies. Gradually, the father began to understand that he should terminate the trusts and provide a distribution from the shared assets, to give his children a tangible stake.

The kids did some soul-searching of their own. They first had to determine how they wanted to be involved with the family office and management of the assets. They had to figure out how to integrate their ownership of the wealth with their visions of themselves. Once their father truly invited them in, they had to determine if they wanted to step up to their new roles in an entity that they viewed as "Dad's." In other words, they had to decide if they wanted to complain about not being asked to participate or if they wanted to actually participate.

The next generation has helped to define specific roles and responsibilities for themselves. Robert holds himself accountable for bringing them into strategy development and decision-making early in the process. While the conversations in this family are ongoing and fluid, they no longer affect the family's ability to make decisions. At the same time, they underscore the complex and demanding challenges facing multigenerational families as they grapple with issues surrounding sustainability.

Single family offices can benefit from partnering with advisers who have the resources and expertise to customize their services in ways that honor the family's heritage, while leveraging their human capital and financial assets in a new way. Generational transitions are always challenging. Families that develop a long-term plan with specific actions and timeframes manage those challenges with much greater success. FB