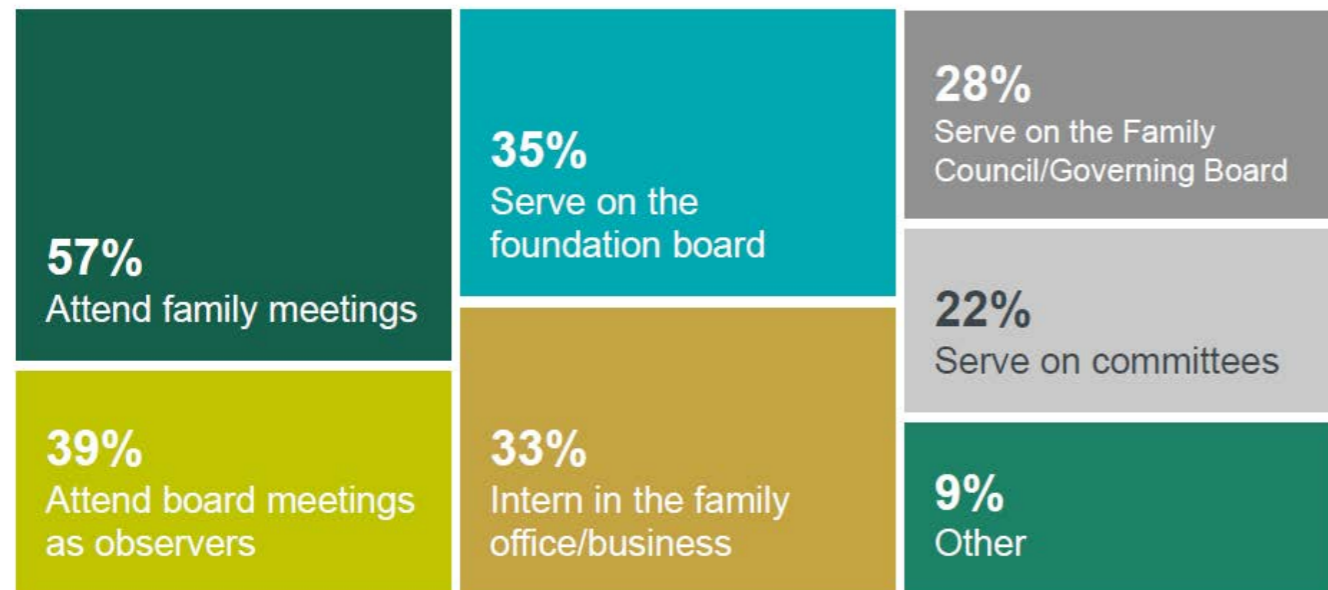


SUCCESSION PLANNING AND PREPARING THE RISING GENERATION

by: Jane Flanagan & Jared Marchant

In what ways can younger family members engage with the family? *Select all that apply n=54*



Other includes: attend investment and trustee meetings, participate in next gen programs, learning sessions and projects with the family office.

No family is immune to change. For family offices, change – whether among the family, the family office, the family business, or key advisors and trustees – is constant. Add to this the complexities of a rapidly evolving world and navigating change can become a daunting challenge.

Amid the pandemic, we asked our family office clients what keeps them awake at night when they think about the next 12 months and 46% cited succession planning, while only 34% noted wealth consumption and 31% cited taxes. More than half of respondents (52%) claim they need help preparing the next generation for family leadership, a challenge that keeps 38% of participants awake at night. The impact of COVID-19, persistent virtual meetings, and geographic dispersion of family members has only heightened the importance of thoughtful succession planning and engaging the rising generation for wealthy families.

These themes came up repeatedly in the results from our 2020 Family Office Benchmarking survey, which

features 78 responses from family offices primarily in the U.S., who collectively provide services to more than 800 households and oversee nearly \$200 billion of assets.

The need for succession planning
Family offices understand the importance of thoughtful succession planning, but it is rarely at the top of the long list of family office “to dos”. However, it should be. Two-thirds (64%) of survey participants are preparing for a succession event in the next 3-5 years, whether with family office leadership, within the family, with trustees or in the family business.

These succession events can stem from any number of triggers. For some, the pandemic and current environment may accelerate the desire to plan for retirement. For others, leaders may determine they’re dedicating more time and effort to the needs of the family than they’d like, and it’s time to get younger family members more involved. Whatever the case may

be, thoughtful planning is imperative to protect the needs of the family and minimize disruption.

A thoughtful approach to succession planning
Succession planning provides an important moment for the family to pause and think deeply about their future and the family’s legacy. Change in the leadership of the family office or business is rarely just about finding a new successor. In most cases it causes the family to take stock of the leader’s role and reimagine what is needed for the family moving forward. These transitions cause many families to revisit their governance structures, their service menus, and even their back-office operations. Wise families plan for succession in the broader context of business continuity, understanding it as a part of every family’s evolution, and recognize the importance of continual planning. These transitions take longer than anticipated and cost more than one might expect, requiring thoughtful planning and communication with the family leadership, governing board or family council and family office staff.

Preparing the rising generation
Preparing the next generation for their roles as leaders of the family is a perennial concern for families. While it is encouraging to see that 66% of respondents report that most of their rising gen family members (ages 25-40) are engaged in family activities, the greatest challenge, when it comes to leadership development, is securing their time. Many are juggling school, careers, and growing their own families. When we asked how younger family members can engage with the family, the responses reinforce that the best way to drive engagement is to provide opportunities to participate in family governance, such as:

- Attending family meetings (57%);
- Attending board meetings as observers (39%) or serving on the family foundation board (35%);
- Interning in the family office/business (33%);
- Planning the annual family meeting, or organizing philanthropic initiatives.

Think creatively
When engaging the next generation, families should leverage technology innovations such as family

portals or apps, and think creatively about how to communicate information in ways that align with the next generation’s preferences. An example is making information more “bite-sized” for virtual consumption during video calls. Some families have asked presenters at their family retreats to pre-record a video of their talk, which is sent as pre-work to the family in advance of a family meeting. This allows the family to use their precious, virtual meeting time to discuss the material and make decisions together.

While the pandemic saw a surge of video call adoption, there may be other technologically driven enhancements to consider incorporating, with a goal of accelerating how information is shared in order to empower decisions. This could be encouraging family members to access more of their information online, establish or overhaul online portals, introduce app-based access to view financial information, or think creatively about alternative forms of providing important information through the use of podcasts, pre-recorded videos, discussion rooms, and more. Bringing it all together

Family offices often serve as navigators of change for the families they serve. The COVID-19 pandemic and reality of imminent generational transitions have reinforced the need for thoughtful succession planning and preparation of the next generation of family office leaders. Framing succession planning (in the business, family, family office or with trustees) in the context of a broader business continuity plan helps to shift the conversation from the often emotional departure of a trusted resource to a more comprehensive look at what is needed for the longer-term well-being of the family.

Jane Flanagan and Jared Marchant are a part of the Global Family & Private Investment Offices group at Northern Trust, which provides a range of asset servicing, fiduciary, investment, banking and wealth management solutions to individuals, families, family offices, and private trust companies around the world. Today, the group oversees \$115 billion in Assets Under Management, with \$600 billion in Assets Under Custody. The group has over 500 family office clients across the globe, with an average client relationship size of \$900 million.