RINGING THE CHANGES

HOW SUCCESSION PLANNING IS CHANGING IN A NEXT GEN WORLD

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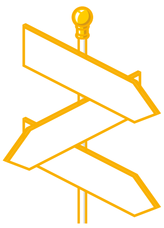
In the last few years, significant changes have taken place in the way clients think about succession. Whereas previously, many preferred not to think about a time when they might not be in charge or even around, COVID and the resulting periods of lockdown, gave people nothing but time to reflect on such issues.

As a result, for many, the question of the legacy they wish to leave to their families, and in many cases, to the wider community, has moved centre-stage.



What factors are driving the changes in approach?

COVID has been a huge factor in changing people's priorities in relation to their families. However, concerns about climate change (highlighted by the recent heatwaves across the northern hemisphere and other weather-related crises elsewhere), the war in Ukraine and the local and worldwide impact of such events have caused many wealthy people to consider the role they should play in trying to alleviate, and even help to solve, such problems.

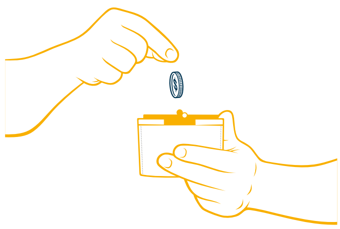
Increasingly, clients are thinking about their philanthropic contribution and how to increase the sustainability of their businesses and investment portfolios. Essentially, they want to know how they, and the trustees and family offices who support them, can make a positive difference.

Where does the next generation come in?

Until recently, the focus of succession planning was primarily on building the profits of a family's businesses and increasing its overall wealth in order to ensure that the next generation was provided for financially, and was ready to take over from the senior family members. The main concern of parents and grandparents was how to avoid the well-known cycle of "rags to rags in three generations".

Until it was their turn to take over, it was fairly common for older members of a family to avoid involving younger members in decision-making, whether on day to day matters or, more importantly, long-term family strategy.

That has changed, not least due to the recognition that factors such as climate change, rapid technological developments and the long-term sustainability of our planet and its resources will be huge issues for Millennials and Gen Z. They are the ones that will be affected by these issues, and they are often the ones with the skills and knowledge to address them.



Inter-generational conflict and how to address this

Older members of wealthy families often draw a line between the business and investment aspects of a family's activities and its wider social and philanthropic projects. For example, they may be sceptical that sustainable investments are capable of offering the same or better financial returns than more traditional forms of investment. Their preferred approach would be to use the returns from such investments to fund a charitable foundation or donate to charitable and philanthropic causes.

In contrast, younger generations tend to consider ESG and other societal considerations to be essential parts of the family's entire philosophy – business, investment and philanthropic.

This may lead to conflict, not least if younger members of the family see their elders investing and trading in businesses that they see as detrimental to the long-term welfare of the planet and humanity, for example, in fossil fuels or other out-dated industries.

However, while it is important that the next generation takes the lead in changing the focus of a family's wealth creation, the benefits of age and experience, and a lifetime of successful wealth management, should not be de-valued.

This is often where a staggered approach to succession may be beneficial, in order to allow all generations to see the value of each others' views.

For example, rather than ignoring sustainable investments completely, or only investing sustainably, initially the family might establish a specific sustainable fund. This could be used to develop businesses with an ESG focus, possibly run by younger family members, or might be invested in existing ESG projects.

More sceptical family members will be able to see whether the financial returns of such an approach justify expanding this to other family business ventures, and at the same time, younger family members will be able to learn the skills of business management and investment from older members in a relatively "safe" environment.

How has the increased complexity of wealth in a globalised world affected succession planning?

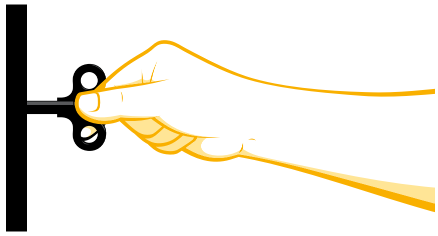
There is no doubt that advances in technology and globalisation increasingly mean that a political or economic crisis in one country affects the rest of the world to a far greater degree than in the past.

This, and a more international business and family lifestyle, has resulted in an exponential increase in the complexity of business, investment and wealth holding structures. As a result, it is more vital than ever to ensure that a family's successor generations are educated and prepared to inherit and manage these structures for the future.

A successful senior family member may have developed a huge business empire from a tiny start-up. Having perhaps enjoyed few educational or financial advantages themselves, they may have focused on the academic and social success of their children, possibly neglecting to educate them in the values behind the family's wealth creation and the business structures that they will one day take over.

Given the complexity of their legacy, and the possible gaps in their experience and understanding of its implications, trustees, advisers and senior family members need to spend time working with the next generation to develop their ability to take over the family's wealth and use it for their family's benefit and that of wider society.

Harnessing their technological skills and understanding of a globalised world and the problems their generation will face will be key to ensuring that they are able to take forward the legacy their parents and grandparents are hoping to create.



The key to successful succession planning

The most important and difficult aspect of succession planning is enabling parents and children to understand each other. For example, parents may think that their children will automatically take over a family business, but in fact, the child wants to forge their own career. The earlier such an issue comes to light, the easier it will be to accommodate it within a family's succession plan.

Where children are interested in continuing their family's business, parents must learn to accept that, once they are adults, they are capable of taking over aspects of the business and need to be given space to do so, ideally while the parent is there to provide guidance.

For advisers, the most important lesson is to listen and observe. We are taught to understand and explain issues, whether legal or business-related, and to offer solutions to complex problems. While family succession planning also require these skills, the most important thing for an adviser is to take a step back and listen to what each member of the family is saying - and to observe what they are not saying.

Only once an adviser understands what is important to each member of a family, can they help them to achieve a governance or succession plan that works for everyone.