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How to ease in-family succession Intergenerational transitions are fraught with emotion but with a little trust can be managed

By Leslie Dashew
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Although family members may work with them, most financial advisers do not think of their firms as family businesses. In their minds, the businesses are theirs — even when ownership is shared with other family members.

At some point, however, most advisers begin to think about exit planning and capitalizing on the assets they have built. Only when advisers start wondering, "Who will be my successor?" and "Can that be a family member?" do advisers start thinking of their firms as family businesses.

Fully engaging other family members as owners, operators and (future) leaders requires that a transition occur from an owner-managed business to an intergenerational business. The founder, instead of calling all the shots, must share power, knowledge and clients. This can be, and usually is, a challenge.

To pass the baton from one generation to the next, the founder must encourage the next generation to hold on to the baton with him. Then the founder must let go. This re-quires trust.

Trust is a greater challenge in the financial advice business than in most others. Clients develop trust in the person with whom they have worked over time, coming

to trust their competence, character and commitment. That is why senior financial professionals must develop a way to shift client relationships to junior advisers — especially family members — in a way that addresses client concerns.

What helps this transition? We have found that succession must address five key issues: ownership, management, knowledge, relationships and authority:

- Ownership. Transitioning ownership ultimately requires letting go of stock (or partnership units), income and control. The psychological issues of letting go include fears that a younger "partner" will not run the business the way the founder does and will not take care of the founder financially during the intergenerational-ownership phase. Careful discussion of expectations and potential conflicts during the creation of partnership agreements can minimize these issues.
- Management and authority. Depending on the size of the firm, a successor may be managing other people and leading the company. Second-generation leaders often want to take the company in different directions than their predecessors. In fact, they may be champing at the bit to have the authority to make those decisions. Oftentimes, founders give titles to one of their children without giving him or her real authority, hoping to appease the next generation without handing over the reins. Sometimes, even when the older generation thinks it is giving up authority, it unconsciously keeps their grip on the baton, refusing to allow the next generation to try something new. This resistance, more than almost any other factor, causes potential successors to leave.

One financial planner was building his firm with other colleagues and wanted his son to join. On our recommendation, his son worked elsewhere first to develop competence and confidence before coming into his father's firm.

With this done, they began negotiating the terms of his joining. The young man was used to a fair amount of autonomy. He worried that his father would not give him enough space. Before he joined, we facilitated many conversations between the two about sharing authority, leadership and management and developed a time frame for the transition. These "pre-negotiations" reduced the tension that was building.

- Knowledge and relationships. It is difficult to let go of the baton when you don't think your successor has the ability or knowledge it takes for success — which is why we stress the importance of preparation before coming into the firm. Designing a structured knowledge transfer plan or development program for a successor helps the owner to develop confidence in him or her. Similarly, spending time helping successors cultivate clients creates confidence before transitioning the book of business. All of this applies to non-family successors as well.

In addition to managing these five key points, we also have found that a successful transition rides on the successor generation having a passion for working in the investment business.

Thus, it is incumbent upon the founder to engage the next generation as a partner in the process.

Leslie Dashew is the president of Scottsdale, Ariz.-based Human Side of Enterprise and a partner in the Aspen Family Business Group of Fort Worth, Texas. She can be reached at leslie@lesliedashew.com.