

Family Office Interview Series

An interview with
Alex Scott

The last great test



In 2020, Alex Scott, Chairman of Schroders Family Office Service, stepped-down from his role as Chairman and CEO of Applerigg, a private, family-owned business built on the foundations of a financial services group established by his great-grandfather in 1903. A fourth-generation leader of the Scott family's business, he has been both a successor and managed his own succession. As a result, he has a deep personal understanding of the responsibilities and challenges of managing generational transition, as well as the opportunities.

According to Alex, succession is a vital part of a family business's success, particularly because there's a predilection among businesses not to endure multiple generations. That's not necessarily because of succession issues, he stresses, it might be that the market the company operates in just isn't conducive to long-lasting businesses. However, you can't go through the generations if you don't get that critical element right.

An essential part of getting it right is nailing the timing. How do you know when it's time to go?

"In my own case," says Alex, "it was when I knew I had a successor who was ready, and that coincided with where I was in my life cycle. I'm 62 and although I had no desire to stop working, I was conscious that I'm not immortal! I was also aware that the last great test for leaders of a family business is to ensure a good succession.

"If you've got a good successor then, in my mind, you do everything you can to facilitate that process. I don't think that you necessarily get to choose your own time," he explains. "To me, the long term success of the family and the family business entity is more to do with the timing of the successor rather than the succeeded, so I was very happy to flex around what I thought was the optimum solution for my successor.

"I suspect that some people have been asked to succeed in a situation when either they weren't ready, or after their enthusiasm has waned," he adds. "I don't think you can say 'I'm 65 and you're 45, so today's the day!' I think it's a much more fluid situation than that, but getting the timing right is key."

What happens if the successor is ready ten years before the leader is willing to relinquish the reins?

"My decision would be based on what the business was doing at the time. For example, if we were in the middle of a project that needed to complete. It would depend on my own demeanour, but also on where exactly the business was," says Alex. "People are capable - I was asked to succeed in my early 30s. If a great successor is available, then it provides a really interesting dilemma for the leader who's in place if they don't feel ready to go. But it's a quality problem," he adds, "because you've got, hopefully, two great leaders! Can they cohabit? Probably not. You need to give your successor time and space to develop and to, frankly, get out of the way."

Avoid the void – what do leaders step-off into?

"I've made it my 'hobby' over the last decade to look at people of my age and older, to see how they handle stepping-off," recounts Alex. "My take is that the better the hinterland that the individual has developed, the more choices they have about succession and being succeeded. The wider the breadth of their interests, be they for profit or not for profit, the more fun they can have. Family business is not a job it's a vocation," he exclaims. "You'll probably carry on in business, you won't just stop. I think it's partly the job of the individual being succeeded to make sure they've got options that mean they can step-off, but not many do in my limited experience."

Alex remains a Trustee of Grosvenor and chairs the Grosvenor Pension Plan and Grosvenor Food & AgTech. He is a Director of the Family Business Network International, co-founded and is Joint Life President of the Institute for Family Business (UK) and is a Director of the International Federation of Family Offices. He is also a Trustee of the Francis C Scott Charitable Trust and the Cumbria Community Foundation.

"As the business leader, your brain has been multifaceted, dealing with multiple issues and challenges. To keep yourself interested, stimulated, engaged, and intellectually agile, you've got to replicate some of the challenges that you had when you were solely focussed on one business. Just playing a sport, for example, isn't sufficient of a hinterland to keep a busy business person really interested," he believes. "Your brain isn't ready for that!"

Alex recognises that it's different for a creator compared to a successor.

"If you've created the company, then I think it's really hard to build a hinterland because it will have taken all your time and effort and one hundred percent concentration, to create something unusual and extraordinary in the classic sense of the word. Most of your social interactions and leisure will have been linked into the business - it becomes all consuming. My own path has been a bit of a rounder walk," he says. "The successor and subsequent generations, will probably have had a different up-bringing and education, travelled and had time to contextualise what they're inheriting, which allows them to develop a broader approach to life," Alex explains. "While the company is utterly central to everything that the successor is and will be, they have the capacity, the time, space, the breadth of experience and education to take on outside interests. I think that's part of the richness and the good fortune of being an inheritor as opposed to being a wealth creator," he adds.



Don't be the family member that crushes someone else's dreams...

"If you're leading a large family, which is the case with us, then whoever succeeds to that position has to be objectively suitable and acceptable as a leader. I'm not saying that potential successors should lobby their cousins," jokes Alex. "Rather that when viewed objectively, the achievements and characteristics of that individual clearly position them as someone who is properly equipped to lead the business."

Alex followed in his predecessors' footsteps by taking guidance of non-family, non-executive directors to select his successor. Their advice was important, he says. "It's very hard to be objective about your children, or your cousins," he explains. "We all remember each other from decades ago, but we change over time, have different experiences and develop. I don't want anyone to measure me on what I was like when I was 19!"

"It's critical to find an objective means of verifying that the individual is really competent to take on the job. You can put people through a process, but we've always relied on non-family, reputable directors and probably, their most critical job is to be influential in succession," he says. "They need to be comfortable that the right individual has come through the process and in order to do that you can't just bring them in for succession. They've got to know you, the family and the business: what it needs and what it will take in future."

"You're dealing with people's hopes and dreams, so my advice is to pass the job on to the non-execs – they're not going to have to go to the family Christmas parties and the weddings!" he jokes.

The succession osmosis

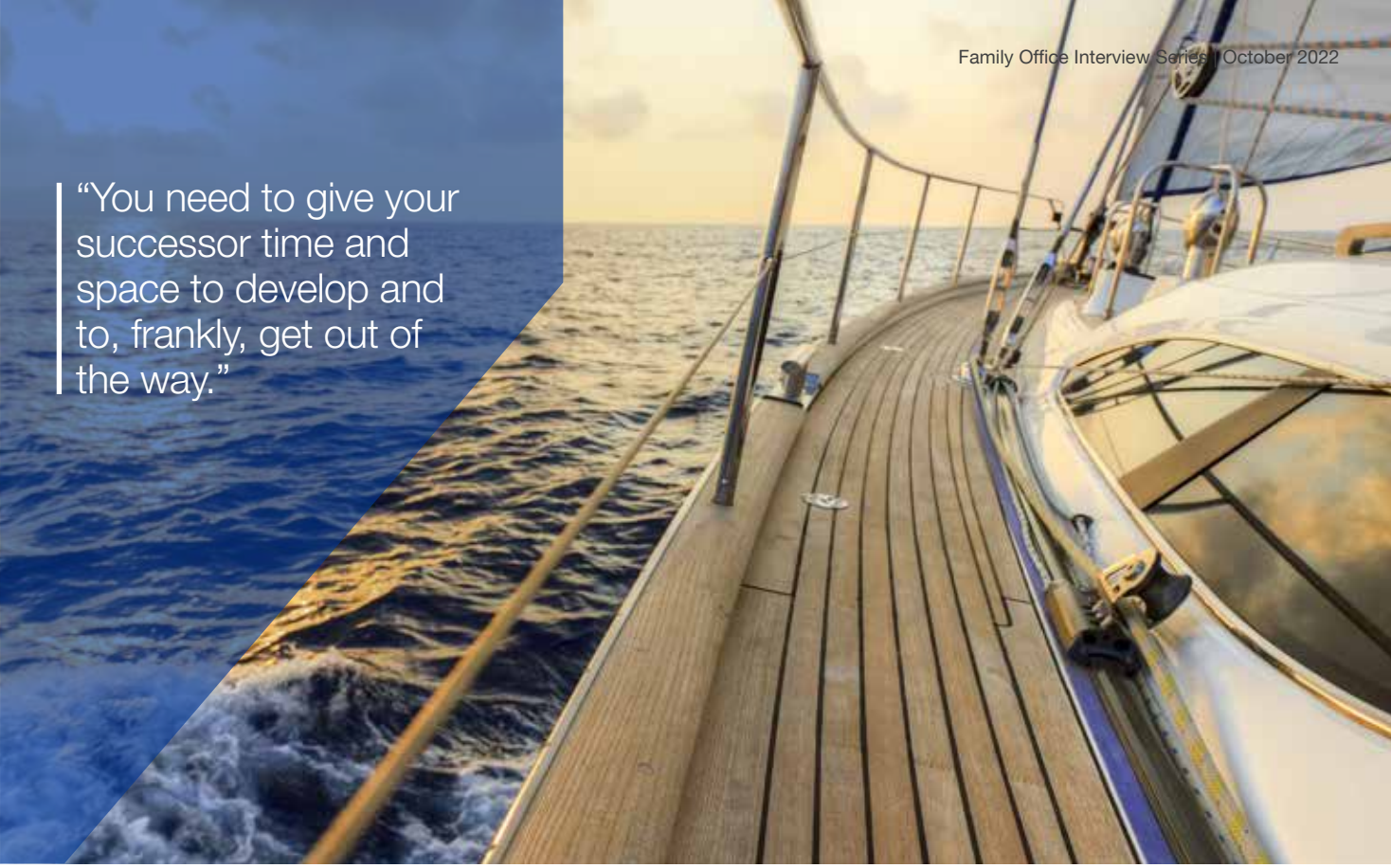
"If you consult the text books, there'll be a good step-by-step process to achieving a successful succession," says Alex. "When I did it, it was more of an osmosis – it was more flexible and fluid."

First of all, Alex explains that the family is more than just names on a list. "We facilitate family get-togethers where we spend time with each other and get to know each other. It's an important part of ensuring that there's coherence amongst the family group and it's something we've invested in for the last twenty-odd years," he says. At one of these family gatherings, Alex broached the subject of succession.

"I said: 'I'm not going to do this forever, someone in your generation will need to step-up and become the future leader. There is no specific time line, but let's talk if you're ready.' In that room it wasn't obvious to me who it would be, there were some good candidates," he explains, "but the beauty of having 36 members of the next generation is that it's not like having to choose between two children. The opportunity to find a good leader is greater."

"Depending on who stepped-up, the way we shaped the role would have been different," says Alex. "We would have flexed according to the individual who eventually emerged, and had several emerged, then I would have gone into a more formal process. This isn't text book. I think no family will follow the text book ultimately – although you probably want to read the book because that gives you a shape of best practice - but you can flex around best practice to fit your own particular circumstances," he explains.

From that conversation to the succession took three to four years. "It all comes back to when the person is ready," insists Alex. "My successor was pursuing a very successful career elsewhere. I knew who he was and was impressed with what he was doing, but it was only when he approached me that I thought, 'let's grab him!'. I knew he was qualified and would be highly acceptable amongst the wider family, but I still had to wait for the non-executive directors to agree," he adds.



"You need to give your successor time and space to develop and to, frankly, get out of the way."

How strong a voice should the non-executive directors have in the decision?

"Theoretically, I think this is one area where they should have a veto", claims Alex. "If their job is to assist the family to ensure the long term health of the company then the most important job that any non-executive or any director takes is the appointment of the Chair and the Chief Executive. The choice of people is critical. If the family decides not to listen to those non-executives, then caveat emptor," he says.

The last big risk

According to Alex, it's not fair and it's not kind for the older generation to hang on beyond their time. "If you don't want to be fair or kind to your children and your descendants, then look at yourself in the mirror and ask yourself why," he challenges.

"I get it. I understand how frightening it can be and how risky it feels, but I'd also point out to the person who's refusing to move aside, that they probably took enormous risks in the creation of the business, the fortune, the family enterprise, and they're going to have to take a risk again! It will probably be uncomfortable, but better to make that decision when you're around, so that if it falls to pieces you can help to pick them up – but don't be the reason that it falls to pieces. That latter piece is critical," he adds.

"Quite a few people have said to me, 'but you're still staying on the Board, aren't you?', and I say, 'absolutely not!'. How can my successor thrive if I'm around and he's having to deal with that!". Alex explains that while there are governance processes and protocols that can be put in place to "support" new leaders, he advises against it. "You can create a family council, shareholder advisory committee, or other form of sounding board, but all of those run the risk of being shadow governance. I'm sure lots of family business owners would disagree with me, but let your successor grasp the role as hopefully you were allowed to grasp it. And if you weren't allowed to grasp it, put yourself back in the position you were in and remember how frustrated you were that you weren't allowed to make your own mark," he adds.

Alex cautions that such a degree of generational interference with successors will put-off good candidates. "If they're smart and ambitious enough, they'll reject that compromise and you risk losing the talent," he says. "Talent within the family should be nurtured and cherished and you need to give talent space to flourish. It's a cliché, but succession is a process not an event. You've got to give the successor the best possible opportunity to succeed on their own terms, without restricting what they do. Be flexible and be prepared to take some risks. If you can't trust them, then don't go through succession. But the fact that your thinking about succession means that you do trust them, so you've just got to let go!", he advises.



“You can create a family council, shareholder advisory committee, or other form of sounding board, but all of those run the risk of being shadow governance.”

Handing-on the legacy not just the business

“If I’ve done things right, then values and culture should be embedded in the business and in the way that I’ve carried out my business on behalf of the family for the last 25 years,” says Alex. “It’s not codified, but we do have a family constitution – we call it a protocol, and it’s in its third edition. The succeeding generation have had their hands all-over the last edition, and I think that’s important – to refresh it and continually come back to why we do things, how we do things, why we are we there,” he explains.

The answer to the question ‘why are we there’, is probably the most important, according to Alex. “I did a lot of work on this question before succession,” he confides. “As the family grows more disparate, however hard you work to maintain connections between them, there has to be a propensity towards saying, ‘why are we bothering with this? It’s taking up my time, I’m reading stuff and going to meetings, and does it really matter?’. We’ve been careful to understand where we’ve come from. Not to glorify our past, but to understand how fortunate we are as inheritors and descendants of some very successful business people, and we’re attempting to be as successful as they were.”

Purposeful stewardship

“For us it’s about purposeful stewardship, and we’ve put together a short, three minute video about what that means for us. It means that we’re not just inheritors, we’re stewards with a responsibility to preserve, protect and grow, because if you just put something in ice you haven’t really been a good steward,” Alex explains. “In order to be a successful steward, you’ve got to make it relevant to the current day, evolve according to the changes in the family, the economy and global circumstances.

“Now that we have a smaller operating company and a larger, liquid portfolio it is particularly important to have an understanding of why you’re doing it,” says Alex. “It’s not just about the money, but who you are and where you’ve come from – in order to preserve, protect and celebrate your good fortune. Hopefully understanding that you’re not special, you’re lucky, and that if you want to institutionalise that luck, then there’s work to do. And that’s the purpose of stewardship,” he adds.

“For some, where you come from and why you do it, will have no impact. There are plenty of stories of inherited wealth and inherited companies that have gone horribly wrong,” recounts Alex. “All I can do, is do my best to inculcate in our successors an understanding of why we’re doing it. Afterall, if we don’t have a purpose, life’s a pretty meaningless.”



Start the conversation

Paul Pratt, Commercial Director

D: +44 (0)20 7516 2233 | M: +44 (0)7825 257457

E: ppratt@pkffundsfamily.com



A decorative background image featuring a close-up of a boat's steering wheel and a thick, braided rope with blue and white patterns. The rope is coiled around the wheel, and the scene is brightly lit, suggesting an outdoor maritime setting.

PKF Littlejohn LLP
15 Westferry Circus
Canary Wharf
London E14 4HD

Tel: +44 (0)20 7516 2200
www.pkf-l.com

This document is prepared as a general guide. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the author or publisher.

PKF Littlejohn LLP, Chartered Accountants. A list of members' names is available at the above address. PKF Littlejohn LLP is a limited liability partnership registered in England and Wales No. 0C342572.

Registered office as above.

PKF Littlejohn LLP is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

PKF International Limited administers a network of legally independent firms which carry on separate business under the PKF Name.

PKF International Limited is not responsible for the acts or omissions of individual member firms of the network.