Edge Weekly The Edge Billion Ringgit Club: Succession planning for the future

MEMBERS of The Edge Billion Ringgit Club and selected guests attended a talk on family business succession planning on Sept 3. Entitled “Family Business Succession: Mapping the Future”, the talk drew about 50 attendees comprising a diverse crowd of first and second-generation family members.
In his welcome speech, The Edge Media Group publisher and group CEO Ho Kay Tat acknowledged family businesses as a key component of any economy as they are built and driven by the spirit of entrepreneurship.

“This is true of Western and Asian economies. However, there’s a popular saying that wealth and business do not last past three generations,” he said.

“So, what can and should family businesses do to map not just a successful future but also a sustainable one? How can one structure the organisation when family members from the second and third generations join the business?”

The talk’s three speakers discussed the key issues and challenges that family businesses face in succession planning today.

Priscilla de Moustier, a ninth-generation family member of the Wendel family and board member of the International Family Business Network (FBN), delivered the keynote address. Her family business of the same name was founded in eastern France in 1704, specialising in steelmaking and other industries.

De Moustier’s presentation addressed the importance of family businesses to the economy. “In times of economic crisis, they are providers of stability and act as an anchor. They aren’t obsessed with daily share prices or quarterly results. They make long-term decisions essential for a good business. The prevalent model is not a large multinational corporation with small shareholders but a family business with a stable owner.”

Morten Bennedsen, a professor of economics and political science and academic director of the Wendel International Centre for Family Enterprise at INSEAD business school, discussed the challenges in family business succession: cultural challenges, transferring family assets, planning for succession, ownership and management design and grooming succession.

“[Being a family business] is a powerful strength; it’s about long-term planning but the ability to transfer the business from generation to generation is a huge challenge,” he said.

The last speaker, Joseph Fan, cited some examples of how Asian family businesses handle their succession planning. The professor at the Department of Finance and School of Accountancy at the Chinese University of Hong Kong says families need to have their own ways of discussing pertinent issues.

“Every family needs to have a decision mechanism in place and respect it. If you don’t practise it, the separation of these families will be the end,” he commented.

During the question-and-answer session, the issues discussed included handling conflicts between profit versus family and the consequences of a family business going public.

“It’s different from being private, even if you list in a way where you still have control. You’ll have to disclose information, get new shareholders, people will start to challenge you … You’ll also get a lot of newspaper and bank analysis,” said Bennedsen.

“Making the decision to do so should be about understanding the family’s role in and contribution to the business. That will tell you how much you need the family in managing the firm.”

Another issue that was brought up was the splitting of company assets as a solution to prevent family feuds.

While it can be a way out, it does come with obstacles, opined Bennedsen. “Firstly, you’re creating businesses that compete with one another. Then, it has to do with the psychology of risk. As a parent, you’d want your children to have insurance but a higher risk is there if they are competitors.

“The third reason people hesitate to use this solution is that entrepreneurs have a selfish notion and might feel very strongly about family succession.”

The talk was organised by The Edge Media Group and was held at Carcosa Seri Negara. It was supported by the Wendel International Centre for Family Enterprise (INSEAD), The Chinese University of Hong Kong and local law firm Mah-Kamariyah & Philip Koh.

Overcoming challenges:

FAMILY business succession is no small matter and planning for it is no easy task. According to Morten Bennedsen, a professor of economics and political science and academic director of the Wendel International Centre for Family Enterprise at INSEAD business school, Asian family businesses today face more challenges in this aspect than European ones.

“A lot of research has been done on this in the US, Europe and Asia. It shows that the transition of a business from one generation to the next is a big challenge for Asian companies and many corporations have suffered because of this,” he tells The Edge.

“This isn’t less common in Western families, just less significant because European and US businesses have a much longer history [than Asians]. So, they died out years ago or a solution was found. In Asia, there’s been so much wealth created [recently], so [now there are] many companies in their first and second generations. They are at a point where they are facing this challenge.”

Most of the challenges involve bridging cultural and generational gaps with the former being pertinent to an Asian family business.

“The cultural model of succession is changing. First-generation entrepreneurs in a Chinese culture might have been poor people who worked very hard and have a specific [succession] model where the eldest son gets everything but the daughter inherits nothing,” Bennedsen explains.

“But right now, the younger generation is sent to the US or the UK for an international education. They may come home with different values and challenge their parents. So, finding a model for new values in respect of what has been created by the older generation is challenging.”

Another challenge lies in transferring family assets, including values and networks, so they can be used by the future generations. The transfer of values though takes time. “It’s important to strengthen and transfer these assets to the next generation, but that’s easier said than done. The first and second generations may also have different mentalities, which makes it even harder,” Bennedsen says. Hence, what’s needed to be done to ensure smooth succession planning is sufficient communication and dialogue between the generations.

“Grooming succession is about education, career planning and dialogue,” Bennedsen continues. “Many second generations doing their MBA often have two questions in their mind: When do I join my family business and how do I talk to my father? They may have a good education and experience, but if there’s no career planning, they may end up leaving the family [business].”

Lastly, the biggest obstacle lies in the challenge of planning and this is purely psychological, he says. “Many entrepreneurs pass on without a succession plan. They don’t have a long-term plan because it’s psychologically difficult. It’s hard to ask those questions and succession might be perceived as a path to death.

“We see this in Asia as well as Europe and this, combined with the difficulty in communicating with the younger generation, makes succession planning harder. But postponing this has its long-term consequences that will affect the bottom line of your business.” — *By Emily Chow*.