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Succession lessons sought for Asian family businesses

By Emma Boyde

It is easy to experience unqualified admiration for the rapid rise of Asian economies and the close family relationships that many in that continent enjoy. But academics suspect that hidden in that strength lies a weakness.

They warn that a great deal of Asian wealth is tied up in family businesses and that much of it will be lost when the head of the family finally decides to step down from the company. Although problems with succession are not unique to Asian family businesses, the difficulties are more acute because there is an added cultural reluctance to broach the issue of succession, according to one academic who specialises in the subject.

“To talk about succession is almost like putting a curse on someone,” says Yupana Wiwattanakantang, associate professor of finance and corporate governance at the National University of Singapore Business School. In Asia the leaders of family businesses tend to be patriarchs rather than matriarchs, she says, and these men want to continue at the helm of the organisation until their dying day. Family members do not want to allude to succession because it might sound as if they were wishing their father or grandfather ill.

"The single most important factor facing Asian family businesses is the issue of succession," says Morten Bennedsen, professor of family enterprise at Insead and director of the Wendel International Centre for Family Enterprise.

Bitterness in the heir

Samsung, Stanley Ho and the Ambani brothers have all experienced family disputes in recent years

He says succession is becoming a pressing issue in Asia not only because many family businesses are relatively young – which means the issue is arising for the first time – but also because evidence suggests that succession has not been going so well.

Prof Bennedsen cites the work of Joseph Fan, professor of accountancy and director of the Institute of Economics and Finance at Chinese University of Hong Kong. Prof Fan, much of whose recent work focuses on family firm succession, has found that companies lose nearly 60 per cent of their value during the transition from one generation to another. His work looked in detail at more than 200 transfers of power in family-controlled companies with listings in Hong Kong, Singapore and Taiwan from 1987 to 2005.

Prof Fan explains that most of the loss was suffered in the five years before succession. "This indicates something has gone wrong in the succession process," he says.

Although his research is necessarily limited to the publicly traded part of family businesses' assets, he says this listed part is usually the "crown jewel" of the company and that any value loss is likely to affect non-listed parts of the company too.

"I think this research finding can be applied universally across southeast Asia and into north Asia. We've documented a similar pattern for mainland Chinese families, too," Prof Fan says.

In the case of China, where many enterprises were born during the economic reforms of the 1980s, the entire country could soon be dealing with succession at the same time.

"In China's case, there is actually country risk," Prof Fan says of the nation's looming succession crisis. "There's a big demand for education on this."

He is helping to set up the Private Enterprise Governance and Development Centre at Renmin University in Beijing, and delivers lectures on family business on a monthly basis around China.

Prof Bennedsen is also reporting an increase in interest in family business education developed at Insead, partly because of the perception that it might have knowledge to pass on: "Coming from Europe, we have at least 100-200 years of experience of ownership models and exit models. One thing we can offer are cases and examples of how families over the last two centuries have tried to cope with many of the same challenges that Asian family business faces today."

However, he adds there is a need to develop models that are specific to the culture in which they will be applied.

While academics are developing ownership and succession models that will create smooth transitions from one generation to another, the typical family business owner in Asia is simply too busy to address the topic, says Prof Wiwattanakantang.

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Address it they must, however, and there is plenty of impartial advice available. Family businesses in Singapore, for example, are being targeted by financial institutions encouraging them to set up trust ownership structures. While such structures are always a good idea for the financial institutions, which earn fees from setting up and administering trusts, they do not suit every family business, says Prof Bennedsen.

He says family businesses should consider which is the best broad model for them. He recalls one Indian family business that had operations across Africa. In that situation it made sense to have many family members in the business because it was then possible to have at least one member in each country. "It changes from family to family," Prof Bennedsen points out.

The thing that all Asian family businesses have in common, however, is the pressing need to make arrangements.

"Students now are very interested in this area. Many are in family businesses and many of the others want to go into private banking," explains Prof Wiwattanakantang, adding that wealth management in Asia demands a good understanding of family businesses because so much wealth tends to be tied up in them.

Despite the demand for more detailed advice and tuition on succession, there is a shortage of academics who have specialised in the topic.

"It's not easy to handle succession and apparently we do not have that many experts in Asia," she says.

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