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Business and family seldom mix well, even in a family businesses, so how can you ensure there's no fall in your company's fortunes when the next generation comes to the fore?

Asian businesses often have very different management models from those in the West, even though the problems they face when ownership and leadership pass from one generation to the next appear to be very similar.

"Every culture has its equivalent of the saying: 'from shirt sleeves to shirt sleeves in three generations'", says Christian Stewart, managing director of Family Legacy (Asia) HK, a company that specialises in helping companies and wealthy individuals protect their wealth during and after generational transitions.

According to Stewart, it is widely believed, globally, that only about 30 per cent of wealth generated by a family business successfully makes a transition from the first to the second generation. The chances of it passing from the second to the third are, yet more pessimistically, estimated at between ten per cent and 15 per cent. Some estimates even go as low as five per cent, although this gloomy consensus appears to be essentially speculative.

Whatever the truth, the prospect is a little depressing for the founders of successful enterprises—a matter of particular concern in Asia, where the great majority of businesses are family businesses.

Successful founder-run Asian businesses are often ill prepared to deal with a generational transition when the original boss steps down, or, as is more typically the case, passes away and succession issues tend to be addressed when it is way too late.

A problem that can also arise in entrepreneurially-based Western companies, as shown by the current concerns over the health of Apple Inc founder and CEO, Steve Jobs.

Jobs is currently on an extended leave of absence to deal with what are described as "serious health issues", the exact nature of which he has kept private. Apple's success is widely believed to stem directly from his creativity and leadership, resulting in considerable anxiety about prospects for the company should he be unable to take up the reins again. It is widely held view that Jobs is Apple—a view bolstered by its poor performance towards the end of his 1984-1996 absence from the board, and one that he has done little to discourage.

Compare Apple's situation with the recent history of the world's largest semi-conductor manufacturer, Intel Corporation, the supplier of Apple's CPUs. Andy Grove, admittedly an employee of the company and not its founder, is considered as much the architect of Intel's success as Jobs is of Apple's. He recently took prudent steps to secure a smooth transition of leadership.

In 1998, after 11 years as the company's phenomenally successful CEO, Grove

Victor Li (L) talking to his father, Hong Kong tycoon Li Ka-shing

2 Former Intel Chairman and CEO Andy Grove

3 Singapore's founding father Lee Kuan Yew (L) congratulating his son, Lee Hsien Loong, as newly installed Prime Minister

resigned. He stayed on as Chairman until 2004 and then relinquished that position too, while remaining an advisor to his two successors. As a result, the company has not faltered. It is worth noting that Intel has a mandatory policy of CEO retirement at 65, although, in 1998, Grove was actually only 62.

But we do things differently here and it is hard to imagine any of the iconic Asian business leaders willingly stepping down at 65. While their tendency to live long and make a late exit often leaves their successors with too much lost ground to make up.

Cheung Kong Chairman, Li Ka Shing, is 80 and Henderson China Holdings' Chairman, Lee Shau Kee, is 72, but nobody expects either of them to cede the ultimate leadership of their companies to their sons—Victor Li or Lee Ka Kit—any time soon.

Those who assert that Lee Kuan Yew, the former prime minister of Singapore, ran his country like a family business, however, can point to one example of a withdrawal in stages along Andy Grove lines.

Lee stepped down as Prime Minister in 1990 allowing Goh Chok Tong to assume the office, but taking the post of Senior Minister. This left no doubt as to the continuity of his influence. When 14 years later Lee Hsien Loong took over, Goh became senior minister and Lee Kuan Yew became Minister Mentor. Singapore has remained stable throughout and Lee, at the age of 85, remains an influential figure.

Few Asian businesses manage the transition in a similarly competent fashion, according to Professor Joseph P.H. Fan of the School of Accountancy and the Department of Finance of the Chinese University of Hong Kong.

"It is tricky to transfer intangible things. They are unique and specific to the founder, as is the case with Steve Jobs. Half the value of Apple is associated with the presence of Jobs and with his wellbeing.

"It's the same with Asian companies. Even a company as large as Cheung Kong Holdings, will still face many challenges when it comes to succession management. It applies to all companies. We see very few successes."

He adds that, "Based on my research into more than 200 successions in Taiwan, Hong Kong and Singapore, it is the single most challenging and value destructive event in the Asian markets. We are talking about an 80 per cent drop in a company's value in the five years following the founder's death. It is a huge issue."

However, Fan takes the view that all companies will experience succession difficulties—despite a brief burst of shareholder confidence that, paradoxically, often shows a surge in share price following the founder's demise. But those that take steps to break the founder's management mould and remake the business stand the best chance of weathering the storm.

Fan says: "If the philosophy of the family is to use the succession opportunity to become more professionalized and to be more market-based, it doesn't necessarily matter if the sons and daughters are not as talented as their parent.

"There is now the opportunity to get more capable and skilful people into the

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> “The chances of family wealth passing from the second to the third generation are estimated at between ten and 15 per cent”

professional manager's market. This means that you may have to change the business model and this is always difficult, especially when the founder is still alive. Many companies try to do too much too late."

Fan stresses the need for companies to establish a set of core values that are not dependent on the qualities and connections of the founder, stating that they need above all to "standardise and professionalise".

He singles out Li and Fung as one example of a family run company, which despite having encountered difficulties after the death of the first generation, has placed itself on a firmer footing for the future with the third generation.

He says, "They have endured for three generations, but it doesn't mean that the process has always been smooth.When the third generation managers and owners first joined the company, it was publicly traded but the family shares were quite diffused. It was very difficult to consolidate.

"Their solution was to take the company private and required each family member to surrender their own shares. Once the consolidation was complete, they took the company public again. The whole process took a number of years, but that was one of the things they had to do to become a successful logistics company.

"Once they had consolidated power they were able to implement change and standardise their business model, so that they could become the experts in supply chain co-ordination. But to create and sustain that business model they had to consolidate power."

That sort of recovery, of course, is only possible if all share holding members of the family are willing to cooperate. Past the second generation of siblings, agreement between the founder's grandchildren, who are only cousins, can be much harder to broker.

Christian Stewart, who was head of the Wealth Advisory Team in Asia for the JP Morgan Private Bank before establishing Family Legacy Asia in 2008 as a private consultancy, says that, in his experience, the

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2 Apple CEO Steve Jobs

3 Lee Shau-kee receiving the Grand Bauhinia Medal attended by his two sons

business, or the family's control of it at least, rarely lasts that long.

Stewart says: "You can see plenty of Asian wealth which is controlled by a single individual or by two parents. You can also find many examples of some configuration of siblings working together, but to go beyond that is very rare. In my six years of travelling around Asia for JP Morgan, I can only think of two examples of successful businesses involving cousins working together."

One common source of problems, according to Stewart, is an insular reliance on family coupled with a suspicion of outsiders. This is often aggravated by limited communication between the first and second generation—typically fathers and sons. A son and heir may have worked in the business for decades, hating every minute of it, and then come to view his father's passing as a chance to escape.

Another issue is that festering family problems are often not discussed, and then suddenly erupt in a way which can be hugely destructive to any business.

Stewart explains: "A family business is a business where there is a significant degree of overlap between a business system and a family system. The rules and values of the family system will often contradict the rules and values of the business system. A simple example is that in a family system you try to treat all of your children equally. In a business system you reward those who do well."

> "Not many people are capable of telling their children: 'I'm not going to give you a cent' after they have worked for the company for 20 years"

He argues that family businesses need to draw a distinction between family and business. He suggests that one positive step is to organise regular family meetings at which non-business issues can be aired, ensuring that they do not spill over into the boardroom. He also stresses the need for communication between the founders and their children, enabling each to understand the other's true wishes and needs.

Stewart also stresses the importance of getting a perspective from trusted outsiders: "Outsiders can be non-family members coming in to a board of directors, or consultants coming in to work with the family or professionals, such as lawyers.

"When I see families who have the presence of trusted outsiders who are a regular part of the family system, versus those families where outsiders are not trusted and everything is within the family decision-making process, there is a significant difference.

"Usually you see that the non-family members are very useful at pushing the family forward in some kind of structured agenda, while the families that don't rely on outsiders can get a little bit stuck."

Stewart also recommends having a family office or foundation, separate from the business, and, most importantly, drawing up a shareholder agreement.

"Most American family businesses will have a shareholders agreement, but you would be lucky if you could find

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five Asian families with one. I'm a big advocate of starting with that, as well as drawing up an exit plan allowing people who don't really want to be there can go off and do something else. In Asian families there is an assumption that you all have to be there as part of the group and that if somebody goes off then the family is breaking up," he says.

According to Anuj Khanna, Head of Private Banking, North Asia for Credit Suisse, more and more wealthy Asian families are turning to trusts as a means of protecting their wealth for future generations. He does not believe a sharp drop in fortune is an inevitable part of succession management process.

Khanna says: "In the old days, when trusts were not available throughout Asia, it might have been true that wealth could be lost or sharply reduced by the time of the third generation.

"This is no longer the case—provided that careful planning is put in place, including the setting up of a family trust to handle the wealth succession, coupled with a well-written family constitution for the succession of business management."

For founders whose ambition is to preserve their business legacy, but not necessarily for the financial benefit of their families, more radical measures are an option. Professor Fan singles out the striking example of the late Wang Chung Ying, founder of the Formosa Plastics Group, who stepped down as Chairman of the company in 2006 at the age of 89.

Wang retained the chairmanship of other group companies, but indicated that he intended to resign from those also in the near future. He died in October 2008 at the age of 91 whilst travelling on business.

Fan says: "After Wang's death, the stock price didn't go down as he had built an infrastructure that was sustainable even without him. Interestingly he didn't leave a will, and he had three wives and more than a dozen children. This would normally be a tremendous challenge to any family but there has been no explosion. He did not pass his wealth to an individual family member, instead he passed it to a charitable foundation."

According to Professor Fan, Wang's flagship company held shares in his affiliate companies with a structure of cross shareholding, with the shares effectively held in a trust. The system was implemented before he died, with professional managers working alongside family members.

"This is a potentially successful case," says Fan. " But not many people are capable of telling their children: 'I'm not going to give you a cent' after they have worked for the company for 20 years."

Text: Robin Lynam Photos: AFP/AP / GCMT