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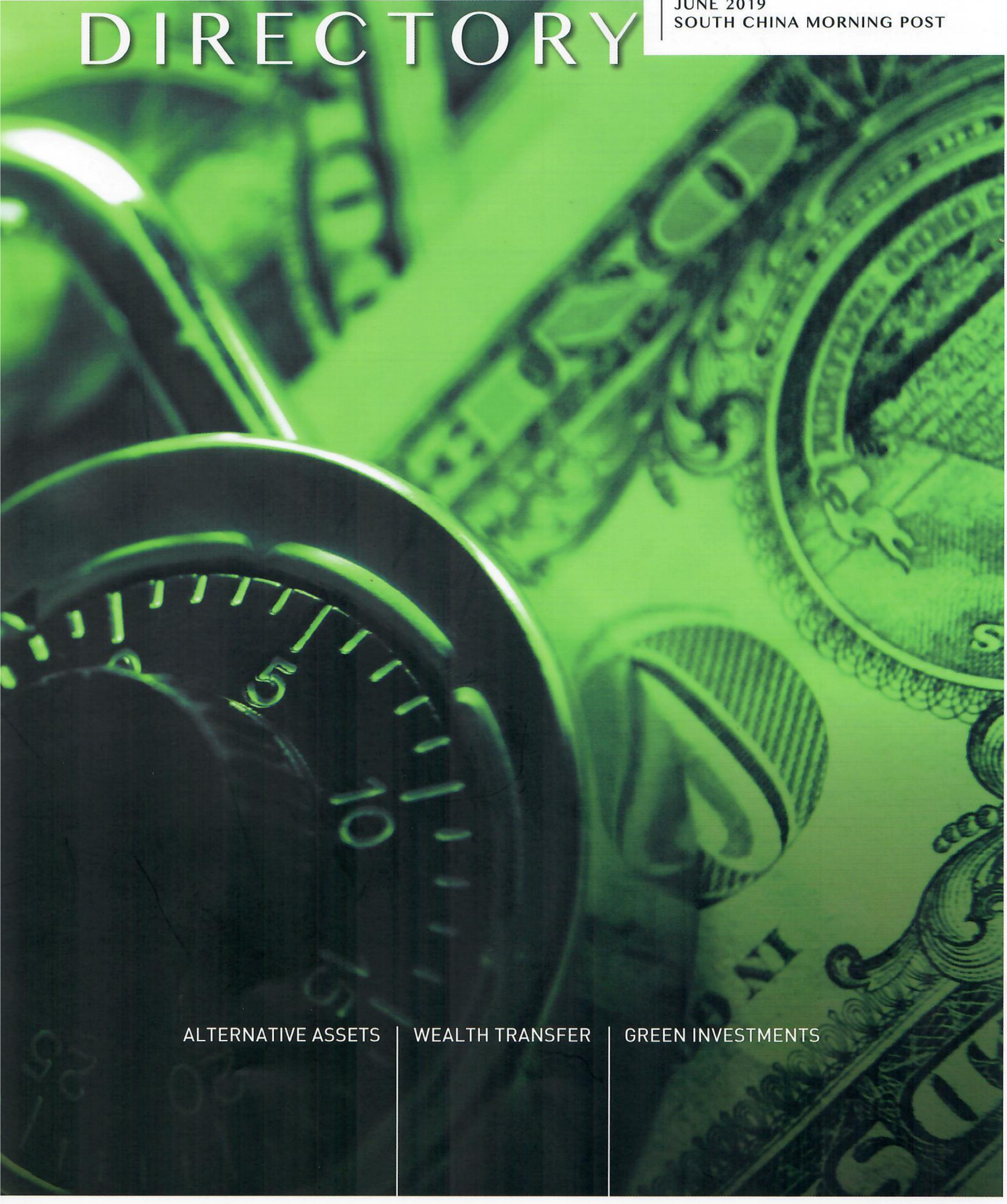

ALTERNATIVE ASSETS | WEALTH TRANSFER | GREEN INVESTMENTS

All in the family

When it comes to passing down wealth or the family business, plan ahead and find a communication facilitator

WEALTH DOES NOT PASS BEYOND three generations, according to a Chinese proverb. Little surprise then that for families in Asia, thinking and planning how to ensure their assets can be passed down smoothly to the next generations is a serious matter.

Financial experts say that injecting new blood from the private market and being aware of new developments in today's ever-changing world can help sustain family businesses.

"Succession planning is an art," says John Wong, Family Business and Private Client Services leader, PwC Hong Kong. "The family is the artist who creates the painting. Whether it ends up being a masterpiece or not depends on how the family tailors it."

But before painting the picture, understand that succession planning should be examined from two key aspects. One involves passing on the

written by Elise Mak

LEFT:
It is vital that assets can be passed down smoothly to the next generations.

ABOVE:
Family members should pay attention to the growth and development of family assets.

family's own assets and wealth to the next generation; the other involves passing on the family's business.

Wong says people often think "family business" is one thing, but family and business need to be looked at separately.

"What works best for the family does not necessarily work best for the business," he stresses.

And when it comes to passing down the family's business, financial experts note that trust and communication are critical for ensuring a smooth succession.

"Families should have clear and ongoing dialogue with family members as to roles, expectations, rights and responsibilities," says Edith Ang, executive director of Family Advisory Group in Asia Pacific at UBS Wealth Management.

One way to do this, according to Christian Stewart, founder of wealth management firm Family Legacy Asia, is to have a family council or annual family meeting, as typical Asian families do not intentionally build governance structures or clarify the ownership role.

"Families should focus on strengthening communication and relationships as the purpose of these annual meetings. There should be someone to facilitate communication across generations," Stewart says. This person, he says, can be a counsellor or a family therapist, a professional facilitator, or family elder - someone that the family trusts.

> Children may not want to take over the family business. A CEO can be introduced to the management while the children still hold the company's shares
>
> **JOHN WONG, FAMILY BUSINESS AND PRIVATE CLIENT SERVICES LEADER, PWC HONG KONG**

Apart from having a facilitator, greater participation by the next generation can also make communication more effective - a trend witnessed by PwC's Wong.

"The first generation increasingly hand over more of the decision-making process when it comes to family governance, so the second generation can also voice their opinions," he says.

In more traditional families, like those in mainland China, the children are expected to take over the family business. They may take up management roles in the family company regardless of their level of interest in it.

However, a different scenario may emerge when the children are genuinely not interested in following in their parents' footsteps, but aspire to pursue their own careers, especially one they have trained for at university.

"These children may not want to take over the family business. Instead, a CEO can be introduced to the management while the children still hold the company's shares," Wong suggests, adding that this is a prevailing trend in Hong Kong.

As more family members from the second or third generations choose to remain outside of the management, there is an increasing trend toward professionalisation, according to UBS's Ang. She notes that

the separation of ownership from management and control is coming into play, with professional managers being hired outside the family.

"We see greater openness to engage professionals, either in the family business or family office, which is adding to the move towards professionalisation and formalisation," she says. "The children are more open to involving neutral third-party advisers in the process."

Stewart says a good idea could be to appoint one or two independent members to the company board, to serve as a balance between the owners and management. "Remember that ownership is more important than management," he says.

According to PwC's Global Family Business Survey 2018, more than 50 per cent of Hong Kong respondents said ensuring that the business stayed in the family, and protecting it as the most important family asset, were their long-term goals over the next five years.

To achieve this, Stewart says families need to develop the next generation when they are in their 20s, so that individual members can learn how to be responsible owners and collaborate with each other. They should also come up with a process to address family conflicts constructively and in a timely manner.

Families looking to make plans for smooth succession should also take note of the technological advances in today's world, financial experts say.

"In the age of digitalisation, the opinion from the next generation helps the business to sustain, transform, improve and thrive in the ever-changing business landscape," PwC's Wong notes.

LEFT:
It is important to nurture the family business by getting all the generations involved.

ABOVE:
Families should strengthen communication and relationships to ensure a smooth succession, of which planning is an essential part.

Amid rapid changes in society with the rise of technology, social media and artificial intelligence, Stewart believes that personal development and learning, with the help of individual coaches if needed, can play a vital role in ensuring that an enterprising family follows a more sustainable path.

UBS's Ang notes that families are recognising the need to innovate and to stay abreast of technology and potential disruptions.

"There is a change in perspective that established businesses do not need to maintain its old ways to remain successful. More importantly, it is about how we can use what we have and remain entrepreneurial and create new growth for the business," Ang explains.

Greater mobility in today's world also has an impact on family business and succession planning.

"It's common to see one generation residing in Asia and the next residing in Canada or the US. Investments are becoming more global too," says Vivian Kiang, head of wealth planning at RBC Wealth Management.

"With more tax reporting regulations coming into play, succession planning structures nowadays not only need to address family concerns, but also must be compliant in a number of different jurisdictions."

Kiang echoes Wong's belief that succession planning needs to be tailor-made. There is no one-size-fits-all approach, as each family situation is unique.

"Bespoke plans cannot be created overnight," Kiang says. "But that isn't to say that it's an entirely cumbersome process; sometimes you just need a simple structure to start with that addresses a family's main concerns. Over time, these arrangements can be reviewed and added to as appropriate."

ABOVE:
It is important that a family use what they have and remain entrepreneurial and create new growth for the family business.