



In the passenger's seat

As the average life expectancy increases, the concept of an executive heading a family business well into their octogenarian years or even beyond is becoming more plausible and more common. So how does a young next-gen convince someone who has built up a family business empire that it is his or her chance to shine? *Amisha Kumar* takes a look

The world of family businesses is full of stories of the next-generation struggling to deal with domineering parents and trying to find the courage to speak out. There's the very public and long-running spat within Australia's Rinehart family, which saw Gina Rinehart's children trying to remove her as trustee of their multi-billion-dollar family trust. In the US, cantankerous octogenarian Rupert Murdoch still chairs media conglomerate News Corp. Confectioner Tootsie Roll Industries is headed by a husband and wife team, Melvin and Ellen Gordon, who are in their 90s and 80s respectively.

Although family business leaders who have founded a company or led it through immense growth may have been indispensable to its performance in the past, their constant need to wield power can be detrimental to the succession process and growth of next-gens, say market watchers.

Take, for example, the situation currently facing the third generation of a Swiss construction family business. Founded back in 1926, the business is owned by the second generation, but their fear that the next-gens – one brother and two sisters – will squander away the family wealth, is holding back transition of the business.

“Although aged 73 and 69, my parents are not willing to transfer the family business and other family assets to my sisters and I,” said the third-gen chief financial officer of the €100m-plus company, who preferred to remain anonymous. “They are unable to talk about heritage transfer and think the longer they will be the owners, the better. They in fact behave like they would never die. Although my sisters and I are not willing to inherit anything before they pass away, we want to address legal issues in order to be ready when it happens.”

But, it doesn't always have to be this way. “LVMH is a classic example of where the issue of controlling parents has been handled well,” says Randel Carlock, professor of entrepreneurship and family enterprise at Insead. Chief executive and chairman Bernard Arnault's children head several brands in the luxury empire, which boasts Louis Vuitton and Christian Dior among its stable. “Antoine took over the shoe business [Berluti] and did a great job building it, and now he is helping to expand Loro Piana. He's not sitting in his dad's shadow but is delivering business results and taking on bigger responsibilities,” Carlock says.

While yielding control of a business one has built up is difficult no matter where you are from, experts reckon it is particularly hard in some economies where strong-willed and entrepreneurial patriarchs lead many companies. “In Asia it is a very common theme that first gens are very controlling individuals,” says Christian Stewart, founder and managing director of Hong Kong-based Family Legacy Asia. “They don't retire, and there is usually a communication gap between them and their children. When they bring their children into the business, that's when problems can arise, especially if the next-gens have had exposure to western values and ways.”

At United Overseas Bank in Singapore, Cho Yaw Wee sent the family business world into a tizz when he appointed a non-family chairman after 40 years at the helm instead of his son Ee Cheong Wee, deputy chairman and chief executive. It was the first time a non-family member had chaired the 79-year-old company,

but it also meant the bank avoided the pitfalls numerous other family-owned firms face – that of next-gens having to take over from strong-willed and controlling parents.

“Today's wealthy Asian families hold a variety of assets, from financial to real estate, and are often founded on an entrepreneur's vision and hard work,” said Bernard Rennell, regional head of global private banking, Asia-Pacific, HSBC Private Bank. “After spending many years building a legacy, these founders now wrestle with how to transfer their wealth and keep their legacy alive in the generations to come. Through our long history of advising Asia's wealthy, we understand that a clearly defined ownership structure and decision-making process not only preserves a family's business legacy, but also reduces potential for conflict between family members to foster healthier long-term relationships.”

Following the three Es of engagement, explanation and expectation is an alternative strategy to help generations within the business avoid coming to loggerheads, suggests Annie Koh, academic director of the Business Families Institute at Singapore Management University. She says engagement should start early to ensure business and family discussions are aligned. “Succession should not be a sudden process.”

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Top: A next gen in charge: Antoine Arnault heads shoe business Berluti, a subsidiary of luxury empire LVMH, which is controlled by his powerful father Bernard Arnault (pictured left with his wife, Helene)



Below: Elderly executives: husband and wife team Ellen and Melvin Gordon are in their eighties and nineties respectively. The couple are part of a growing number of family business heads who are choosing work over retirement

Right: Former United Overseas Bank head Cho Yaw Wee avoided the pitfalls many family businesses face when a next gen takes over from their strong-willed parent by appointing a non-family member as his immediate successor



When it comes to explanation, Koh says that businesses should ensure proper communication of decisions and plans, even to family members who are not working in the company. “They often don’t have an idea about what the business is going through, so some business decisions should be explained to them,” adds Koh.

But the first two Es will only work well if paired with the third. For a founding generation family business leader who has more than one child, “keeping the cards close to his chest” will only end in disaster, says Koh, as expectations of all the children are heightened when it comes to succession. “You need two hands to clap. Similarly, there may be people who don’t want to be in the family business.”

Several typical characteristics of first gens can make this process easier said than done, however. Many founders of companies are unused to a board of directors, or even being answerable to anyone. Additionally, a lot of entrepreneurs rely on the “golden gut” – using intuition to drive business strategy and then having difficulty explaining their decision-making processes to others.

A lack of constructive feedback can be exacerbated when non-family members feel they can’t speak frankly to next-gens in the business, explains Sian Steele, partner at PwC



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UK. “During appraisals, you can’t really tell your boss’s child that they are rubbish, so some next-gens don’t get any good and constructive feedback. Invariably in these situations, the parent has the more controlling role.”

The combination of little responsibility and a lack of professional feedback can have undesirable results when a next-gen suddenly lands in the driver’s seat. According to a PwC survey of more than 200 next-gens, published in April this year, 86% of that generation who have decided to work in their family firms want to “do something significant and special when they take over”. Some 80% also have ideas for changing and growing the company – by launching new products, investing in new technology, or changing how the business operates.

Such aspirations aren’t a problem in themselves, but Steele warns: “You often see next-gens making more radical changes because they feel they were suppressed all that time. So now they feel the need to show that they are credible and have something to offer. And this probably creates more disruption to the business in the medium term.”

To return a sense of ownership to the next-generation, Carlock says he never lets a senior member chair a family meeting that is focusing on bridging the gap between two generations. “I always ask two or three younger generation members to get the agenda for the meeting and feed it back to the rest of the family. Because it’s not about the power – it’s about experience, development and building confidence among the next-gens.”

For the third generation of the Swiss family business, it is no longer just a family matter – because the lives of some 1,000 employees depend on the company’s future. “Thankfully, there are no consequences for the family business so far, and our relationship with our parents is not affected either, but it could change in the near future,” said the 40-year-old next-gen. “My sisters and I are working together to draw the transfer process. Even if the transfer occurs at our parents’ death, there are a lot of legal matters to solve before. We will present our vision to our parents before the end of the year, probably this autumn, and we hope this will start a new discussion and new process. If nothing happens after that and the process

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TOP 10 TIPS FOR COAXING AND CAJOLING CONTROLLING PARENTS



Dilute ownership. One pathway to deal with “controlling” parents is to list the company and run it like a professional entity, explains SMU’s Koh. “If you are listed, you can avoid family members looking at a successor as never being good enough.”



Succession is a journey. If you think of succession as something that takes place for everyone’s best interests, you are one step closer to avoiding conflicts between parents and children, adds Koh.



Talk, talk, talk. “The single biggest problem is that members of the senior generation have all the ideas in their head and don’t communicate,” says PwC’s Steele. “Just because they have thought of a decision and why it is right, they think it’s okay, but they haven’t shared their thinking with people around them.”



Work outside. “You learn the basics of business in a different environment, and get balanced feedback on actual performance,” says Stewart from Family Legacy Asia. “The chance to work away from your family also helps next-gens grow up as mature individuals.”



Be patient. Clashes often arise when next-gens are brimming with ideas, but they feel that their parents are not letting go fast enough. “Don’t try to go too fast. It’s a marathon not a sprint,” says Stewart.



Find your niche. “Get specific education in a particular area,” says FBI’s Rivers. “This specialised education will prepare next-gens to take over the business and apply more sophistication to operations as it is not dependent on mom and dad’s personal expertise.”



Encourage governance. “Have a constant rotation of non-family executive directors who are robust and will challenge the senior generation,” says Steele. “Too often non-family directors don’t have much clarity on what is needed of them to make the business succeed. So ensuring strong governance is very important.”



Train hard. “It’s like going to the gym,” says Carlock. “If you go every day, you will be physically in a better shape. The same things happen emotionally and cognitively if you do things to train your mind, and are with other people who are facing similar struggles.”



Have the courage. “If the situation is unbearable and untenable, your self-esteem is being affected and your creativity is getting crushed, leave,” recommends Rivers. “Go get your economic needs elsewhere and ironically if you do that, you become more valuable and more desirable to the family business. Have the courage to demonstrate that you can survive elsewhere on your own.”

Below: Power suit: the power struggle between Hancock Prospecting second-gen Gina Rinehart and her children regarding control of the family trust played out very publicly in the Australian courts

Opposite page, bottom: Annie Koh, family business expert at Singapore Management University



is not initiated, then there will be an open conflict with our parents that will be rather hard.”

In the end, it boils down to the crux of the relationship between the parents and their children. According to Wayne Rivers, co-founder and president of US-based Family Business Institute consultancy, people who are strong-willed don’t respect those who are not strong willed. “If parents are domineering, they are not going to respect next-gens that behave in a subservient way,” he says. “So demonstrating resolve and courage in the face of controlling parents is critical. Of course, in Asia courage becomes difficult. But in the US rebellion is a norm rather than the exception.”

Luckily, there are some ways out. Koh suggests helping the “controlling” parent find something else to divert his or her energy into. “If he’s busy driving a new business or venture then he won’t be looking over the shoulders of his children.”

On the other side, Carlock reckons next-gens often feel “unworthiness, loneliness and powerless in the shadow of a famous mother or father or business leader. They measure themselves against the parents. So the focus really should be on helping the next-gens get their confidence, change themselves, and develop their talents and capabilities”. FB