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FB *For families in business*

What Asians can learn from Americans
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In the US, if you are a wealthy individual, you would not walk across the road without taking your lawyer, tax advisor, accountant and therapist with you. The wealthy Asian individual, however, will walk across the road on his/her own writes Christian Stewart.

Asia has a different culture in terms of the use of external professional advisors, and this has some impact on the succession process. For example, most Asian families do not have a family shareholders agreement or "exit plan".

One reason might be that the first generation founder might have a certain vision or dream of all of his/her children working together to continue the family business in the future. It might not be acceptable within the family to question the feasibility of this dream. As such, any talk about shareholders agreements or the possibility of family members exiting is too sensitive.

However, an Asian family that can talk about the need to put in place an exit plan is going to be much better off than one without and I'm a big believer that this is one "American" approach that should be adopted here.

It is also uncommon in Asia to see the creation of one class of voting shares and a separate class

of non-voting shares (albeit shares that still participate in dividends). We also do not make use of "voting trust" arrangements in Asia. The idea is that the voting shares are given to those heirs who are managing the business (the "insiders") and the nonvoting shares given to those who are not (the "outside shareholders").

There are also differences in the way that private trust structures are used in Asia when compared to the US. Trusts are often used in the US for specific domestic tax mitigation purposes. It is also common in the US to make use of individuals to take on trustee roles.

By contrast, in Asia trustees tend to be bank trustee companies and trusts tend to be set up for non-tax reasons such as succession planning. If you do have a family business in Asia owned under a trust, while it would likely have a bank trustee company, if you looked closely at the documentation, you would see that the trustee was not responsible for exercising the voting rights on the shares in the family company.

Instead there would be a "management committee" or a "protectors committee" that had the right to exercise those voting rights. So in Asia we might end up at essentially the same place through a slightly different legal mechanism.

The danger with these types of legal structures though is that a family that makes use of them is less likely to do any of the real work necessary to address the differing perspectives of inside versus outside "stakeholders".

Asian families do not prepare "family employment policies". This might work for the second generation but will it work for the third generation? For example, it can be very hard for a parent in the second generation to put aside their "dad" or "mum" hat when it comes to looking at the strengths and weaknesses of their own children as compared to their nieces and nephews.

Having a family employment policy is a second "American" practice that would make a very positive difference here by setting out clear and objective rules governing the entry of the third generation into the business. It could help avoid some unnecessary family conflict.

In Asia, I believe there is some times merit in an advisor or other third party (eg, a trusted non-family director) acting as a "bridge" between the senior founder generation and the next generation, to help overcome the communication gap when it comes to succession issues.

An American advisor to a family would consider this to be an inappropriate way to work with a family. The advisor acting as a "bridge" actually impedes good communication between the two generations.

I recently heard a story about an experienced US based family business advisor who had been brought in by an American family to deliver the news that the "old man" had to step down. The advisor's job was to tell the founder: "He was more of a liability than an asset to the business".

This would never happen to an Asian family. In an Asian family there is no such thing as firing the founder. However, there is good practice that Asian family businesses would do well to consider copying from their American cousins.

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