

Private Wealth Management, APAC Summit

*Organiser: Marcus Evans*

## Building a Service Agreement Governance Culture for Family Successors

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# Business Family



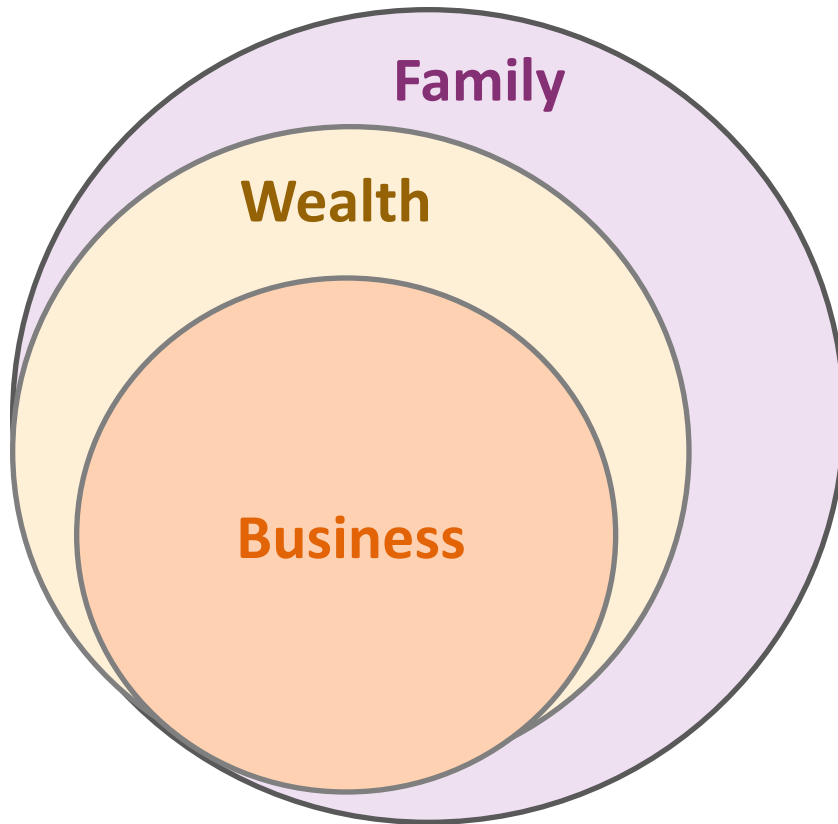
- ✓ An extended family, CWK is 4<sup>th</sup> grandson of the Chong family.
- ✓ CWK started his own Business Concept - in 1990, investing in PE & property.
- ✓ Prior to joining Wen Ken in 1995 , CWK worked 13 years in accounting, marketing & venture capital investment.
- ✓ CWK is Guinness World Record holder of the largest Goshenite, a gemstone thought to bring clarity, truth & balance in body and mind in one's life.

# Family Business



- ✓ Founded in 1937, Wen Ken is a multi-generation & multi-family business owned by Fu, Chan, Foo & Chong families.
- ✓ 2G business leader from Fu Family took 6 years to recruit CWK as 3G business leader.
- ✓ CWK led Wen Ken for 16 years, Nov 1995-2011.

# Successors



EQ  
IQ  
SQ (Street-smart)

# Business & Enterprise

## Business



生

Shēng

*Shoot emerges  
from ground*



意

Yì

*Voice from  
the Heart*

## Enterprise



企

Qǐ

*Tiptoe to  
see far*



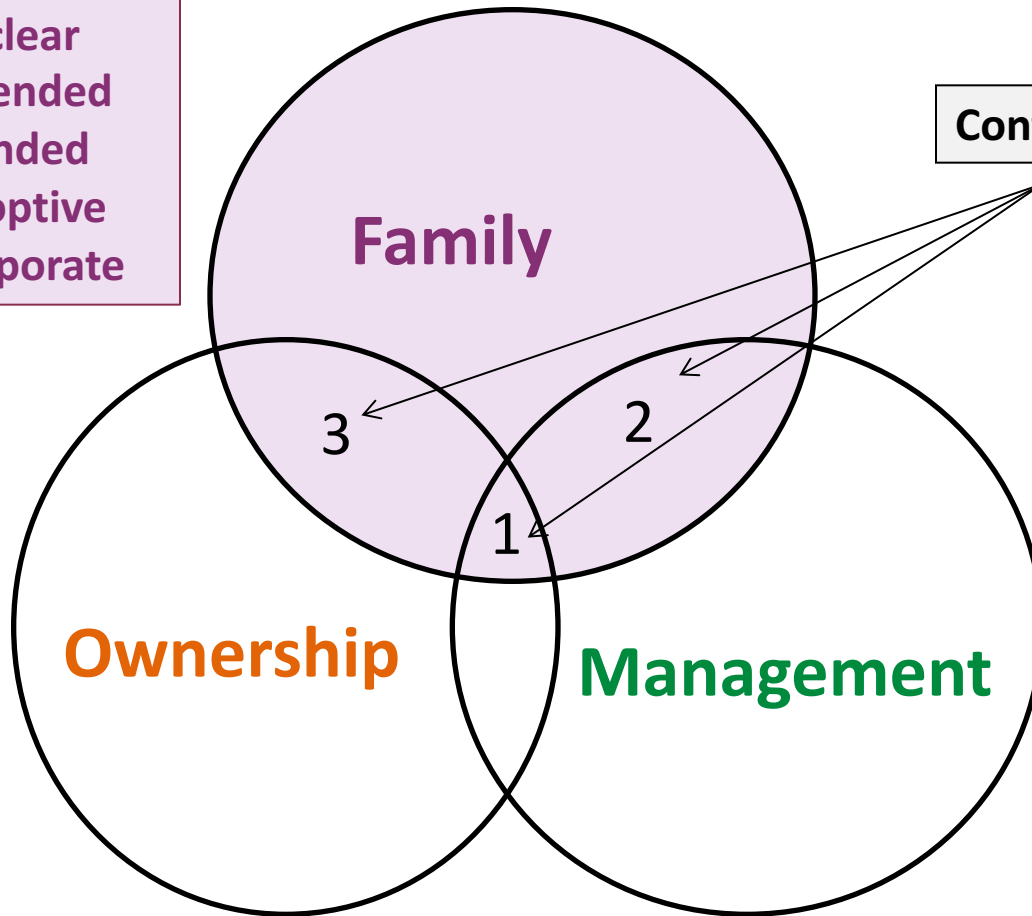
業

Yè

*Toil under  
management*

# Challenges for Family Successors

- ✓ Nuclear
- ✓ Extended
- ✓ Blended
- ✓ Adoptive
- ✓ Corporate



Conflict Segments

- ✓ Legal
- ✓ Influential
- ✓ Beneficial

- ✓ Old Mgm
- ✓ New Mgm
- ✓ JV Partners

Understanding Conflict MAP (Money, Affection & Power) to actively tackle them.

# Employment Issues for Family Successors & How to Reduce Friction

## Identify the Common Issues:

- Employment of family members – who are allowed to come into the business?
- How to attract, retain, motivate and reward family members

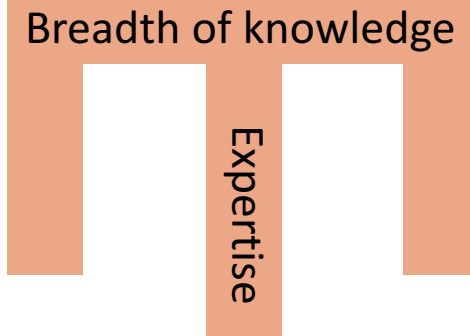
## Establish Policies before the needs:

- Issues are given attention before they become personal & emotional
- Managing expectations & having no surprises

Choose Successors with 'Heart' for the family business to thrive

# Attributes of Successors

- **O**pen-Minded
- **L**earned
- **I**ndependent
- **V**igilant
- **E**nergetic





# Pre-employment Preparations

- ✓ 2G leader took 6 years to select a leader among 3G members
- ✓ Designated 3G leader proposed business model & strategy for next era. Examples:
  - “Invited xxx to start a plan for the company & eventually go for listing.”*
  - “To form entities for specific purposes & persons with the relevant skills would be put in charge of these entities.”*
- ✓ Resolved at AGMs on appointing 3G leader, adopting his/her proposed business model & strategy for next era
- ✓ Set up a new entity or use holding company to employ 3G leader
- ✓ Invited 3G members from other families to join the family business

# Salient Points in a Service Agreement

- ✓ Entity to employ 3G – *new entity or holding company. Why?*
- ✓ Remuneration from outside prior to joining family business  
*Should it be lower, same or higher than in family business?*
- ✓ Duties & powers assigned by the Board, in accordance with Memorandum & Articles of Association
- ✓ Option to purchase or subscribe up to *XX % (?)* in existing JV company. If in the opinion of holding company that 3G leader has made significant contribution in the listing of the JV company. The valuation of the Option shall be based on NTA or valuation at the discretion of the vendor of the Option.

# Salient Points in a Service Agreement

- ✓ Option to invest in new ventures initiated or where such ventures require the service of 3G leader.
  - *Should options be given to invest in new ventures?*
  - *If yes, what % of equity share capital?*
- ✓ Company car – Profit above certain target & deemed by the company to be suitable for his/her performance of duties.  
*What type of car?*
- ✓ Expenses  
Reimbursement for reasonable travelling, hotel and other expenses, wholly, exclusively and necessarily incurred in the performance of his/her duties.

# Salient Points in a Service Agreement

- ✓ Annual Leave

*XX (?) days'* paid annual leave per year of employment.

Any unutilised leave will be carried forward for one year.

- ✓ Illness:

3G shall continue to be paid during period of absence due to incapacity up to *XX (?) weeks*, thereafter shall continue to be paid salary only at the discretion of the company

- ✓ Termination events: misconduct, adjudicated a bankrupt & inability to perform the duties

- ✓ Termination without giving any reason and notice period.

*What is a fair notice period?*

# Salient Points in a Service Agreement

- ✓ Retirement from family business:
  - Before legal retirement age (*At what age? Why?*)
  - Legal retirement age (*60 or 62 in Singapore?*)
  - Re-employable age extended on a year-to-year with a maximum *XX (?)* years of extension
- ✓ Retirement benefits: One month pay for every 12 months of service, *up to maximum of XX (?) months* of his/her last drawn remuneration per month.
- ✓ Law Applicable in accordance with the laws of the country
- ✓ Service Agreement duly signed by 2G Group MD & 3G leader, witnessed by a non-family member.

# Postlude

## ✓ 先小人，后君子 *(Xiān Xiǎo Rén, Hòu Jūn Zǐ)*

Specify terms clearly in advance so that they can be fulfilled in the future.

- ✓ Choose successors with 'Heart' for family business.
- ✓ Pre-employment preparations are important.
- ✓ Resolved at AGMs on appointing family business leader & adopting his/her proposed business model & strategy for next era.
- ✓ Service Agreement with proper governance in remuneration, benefits, option to invest in existing & new ventures, termination, retirement, and other clauses may reduce conflicts...but nothing is fool-proof.