How Do Asia's Rich View Succession Planning?

Asia's wealthy individuals employ a variety of methods in planning for the succession of their family businesses, ranging from Lippo Group's twice a year meetings with family members to Business Concept's plans for governance managed through trusts and foundations. Family feuds are known to have sunk companies; famous among them in Asia are Aws of Haw Par Group, Chuas of Cycle & Carriage Co, Tans of Tan Chong Motor, Widjajas of Sinar Mas and Yeos of Yeo Hiap Seng.

"Money always causes squabbles," says Cheong Wing Kiat, the founder and owner of Business Concept, which manages his personal wealth and advises other families on business and investment-related issues. Cheong is also an executive director of Singapore-based Wen Ken Drug Company, the holding company of Wen Ken Group, which manages the family business and its extended investment portfolios in private equity and properties. Founded in 1937, Wen Ken Group is owned by four founding families. "Structuring through trusts and foundations and with proper governance should be the first step," says Cheong, who led the company between 1995 and 2011. "The hard work is really how parents communicate, educate and maintain value systems within the family. This cannot be underestimated, as it drives the character of the future generations," he add. A third-generation member of one of the founding families currently runs Wen Ken Group.

"Family businesses generally fail for family reasons," said one of the interviewees in a PwC survey of 2,378 family businesses with a turnover of at least USD$5 million to over $1billion. "The red flag here is the issue of succession. Only 16% of family firms have a succession plan that has been discussed and documented," according to the survey findings, which included businesses surveyed across 40 countries. PwC says the succession process has become more hazardous in recent years because there is a longer gap between generations, as people have children later, and an increasingly significant communication gap between those running the business now and those who expect – or are expected – to take over.

At Southeast Asia's oldest wine merchant Hock Tong Bee, Clinton Ang, the youngest of four children inherited the company after his father's death in 2003. Ang's three other siblings sit on the board of the company. "The board is my pillar and it is important that they challenge my decisions to ensure that we don't make the same mistake twice," the 40-year-old said in a recent interview. Ang, whose family wealth exceeds S$100 million said that "he won't force the family's younger generation into the business unless they are interested."

At Lippo Group, twice a year Mochtar Riady meets with his grandchildren individually to find out their talent and passion as part of the family business' development and succession plan. His son Stephen Riady unabashedly admitted last year, during a discussion session on succession planning at the launch of Singapore Management University's Business Family Institute, that daughters aren't actively involved in the business empire, which is estimated to be worth $2.2 billion. My family believes in making it simple. Sisters, when they are married, follow their husband," the younger Riady said. As for the third-generation members of Riady's empire, he says: "we encourage them to grow their own businesses and they take majority share of their business, we become minority shareholders. In this way, each one of them will have a business to run, rather than having everybody in one organisation."

Stephen Riady, whose son is currently working in an investment bank in New York, believes that besides a good education, a potential successor should be given the opportunity to learn about all aspects of the family business. More importantly, he should be God-fearing. "If you fear God, it makes you fear authority and builds your character." Stephen Riady became a Christian in 1991 and was known a few years back for a signboard outside Singapore's Newton One condominium that read "Fully Sold, Thanks be to God."

Ho Kwan Ping, the executive chairman and also the founder of Banyan Tree Holdings, believes that there are two levels to succession planning. The first relates to the ownership of the family business and the second is linked to leadership and management of a company. "That the family members will succeed you and because they are your children, then they must learn the skills necessary to be good shareholders, be good owners and be good stewards, they must understand governance and strategy and be able to provide the vision for management to follow," he said.

Robert Yap, the chairman and chief executive of supply chain group YCH, readily admits the family has yet to consider succession planning. "For us everybody in the company comes from the family. So we run some sort of family enterprise," says Yap, who also believes in having a professional team, which may or may not include immediate members of the family.

High-end stationer Grandluxe, which counts Middle Eastern royalty as customers, started hiring fresh local graduates as management associates three years ago. "My children are only 17 and 14 years old and are unsure of what they want to do when they grow up; succession planning for now has to include non-family members," says Winnie Chan, a third-generation family member who is currently the head of the Singapore-based company. Grandluxe is now in its 69th year of business.

It is estimated that 70% of family businesses will not survive into the second generation. The subsequent successful transition to the third generation experiences a sharp decline to about 10%.

Asia's wealthiest families who have failed to announce succession plans include Macau's 87-year-old gambling tycoon Stanley Ho, whose ailing health has attracted tremendous media attention. During an incapacitation last year a feud erupted that saw various members of the family at loggerheads and airing their grievances in public.

(Source: Forbes Asia, 17 Nov 2014, By Bee Lin Ang)