

# ALL IN THE FAMILY

DRAWING THE FINE LINE BETWEEN FAMILY, BUSINESS, AND THE FAMILY BUSINESS

BY MINDY TAN



**T**HE best piece of advice anyone can give a business leader looking for a successor? Throw equality out of the window. And while you are at it, stop holding on. It sounds counter-intuitive, but trying to ensure equality in family succession might actually be the first step in dismantling a business. "Increasingly, family councils are advising families that trying to divide the business equally makes the business more vulnerable for takeovers, especially if the business is not sizeable or if there are many children involved," says Lee Woon Shiu, Bank of Singapore's head of wealth planning (trust & insurance).

Instead, the patriarch must identify the most competent leader early on, which ties in with the notion of relinquishing control earlier, something that most founders have difficulty in doing.

According to a study released by Deloitte and the Business Families Institute at Singapore Management University (SMU), the majority (62 per cent) of business founders surveyed said that they only expect to transition out of management in their 70s. This is despite the fact that 46 per cent of business founders thought that the next generation would ideally take control of the family firm in their 30s, and a further 46 per cent said that this would ideally happen when the successor was in their 40s.

That founders are unable to let go of the business often boils down to three things: they want to retain control over the business which they built from scratch; they want to avoid a messy succession – particularly if more than one child is involved in the business; there is no successor within the immediate family.

"Succession is inevitable, but with less than a quarter of businesses around the world making it to the third generation, planning for change should be a higher priority," says Maya Prabhu, managing director at Coutts Institute.

Unfortunately, with both family and business considerations to balance, boundaries can often become blurred. "Business decisions can be influenced by family emotions, which can often lead to ineffective results. Conversely, decisions made without sufficient consideration of family emotions may also not be a recipe for success. The high emotional content of these conversations means that they are frequently avoided by families. This avoidance leads to disastrous results for family harmony and business success," she says.

Derrick Yap, the son of PBA Group's founder Tony Yap, concedes that the firm embarked on the succession planning journey too late. "The joke of the company is that my dad has been saying he wants to retire for the last five years. He's very open to handing over to someone, the difficulty is finding a group of professional managers whom we think are capable enough to each take on a specialised portion of his current job scope," says Mr Yap, who is currently the regional director at PBA Group, a precision engineering firm.

Part of the challenge lies in the fact that there is a gap in middle management personnel at PBA Group.

"My challenge now is to convince the senior management that we need to implant a lot of middle management. Even though the senior management are effective now, what's going to happen five years down the road (when they retire)? So we have to incur some extra overheads now just to plan for the future," says Mr Yap.

The second part of the challenge is that the firm is trying to manage both growth management and succession planning at the same time. "Now, even if my dad is willing to let go and teach, the management has to decide if we want our guy to spend the time learning from him now, or if we want him on the ground to manage growth. That is our problem," says Mr Yap.

"If I had the exposure and planned for it earlier, it would have been much easier because we could phase it in bit by bit, maybe groom staff from finance first, then in two years marketing etc."

What is unique about PBA's situation is that the younger Mr Yap is also planning for his own succession. "I try to structure everything so I don't have to be in the company. That is what I consider the ideal management style," says Mr Yap. "If everyone can think for themselves, everyone is empowered to do what they want to do. And if this model works, then your company can expand more quickly. Of course, for this to work, you must have a lot of stop-gate measures, for instance a person can't sign a purchase order of more than \$10,000."

"In a succession planning point of view, I'm trying to do my own succession planning where my managers can run the company without me."

While planning one's own succession at such a young age – Mr Yap is only 35 this year – is unique to PBA, second-generation leaders generally agree that current leaders should transition out of controlling the management of the business family at an earlier age.

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– Lee Woon Shiu, Bank of Singapore's head of wealth planning (trust & insurance)

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– Derrick Yap, regional director at PBA Group and son of PBA Group's founder Tony Yap

According to the study Asian Business Families Succession, the majority of second-generation leaders (42 per cent) said that they would transition out of management in their 60s, compared with 62 per cent of first-generation leaders who said that they would transition out of management only in their 70s.

Indeed, the second generation is keen for the first generation to transition out of the decision-making role earlier, not so much because they are anxious to take over, but that the first generation's preference to step aside at 70 means the next generation will be about 50 when they take over. Thus, there will be a more uphill struggle to gain recognition from employees, partners and customers, says Annie Koh, vice-president of business development and external relations at the Singapore Management University (SMU), and one of the authors of the study which surveyed 83 business families mainly from Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam between August and October last year.

“Therefore, the second generation can empathise when it's their turn to want to give the next generation the opportunity to build and drive the business with a family and non-family team of professionals much earlier,” says Prof Koh, who is

also the academic director of Business Families Institute@SMU.

“They don't want to make the same mistakes and want to plan for succession earlier. However, there's always the worry that business may not last beyond three generations – so the second generation tries to give the third generation as much help on the side,” she adds.

#### BUILDING AN ARMY

For PBA's Mr Yap, building his “wolf pack” is about finding aggressive go-getters. “If you have one wolf surrounded by sheep, this wolf will leave after awhile. But if you have three wolves together, they will feed off each other and grow. And from there they will pull in other wolves to join the company. So the difficult thing is finding this initial pool of people who have the synergy and who are hunters. After crossing that chasm, the rest comes naturally,” says Mr Yap.

That being said, there are certain shortcomings to being overly aggressive. “It is inevitable that if you have a person who is aggressive and very fast-paced, he will have a shortcoming like being unable to drill down to the finer details which may make or break the deal,” says Mr Yap. “But because he is aggressive and is everywhere at the same time, he is able to bring

in many deals. So we also need someone to sift through the deals. Both people must be equally aggressive, but with different personalities.”

In a similar vein, families who turn to professionals to run the family business because family members are unable or unwilling to run it have to ensure that the professional whom they hire fits in with the family's DNA and ethos.

It is for this reason that the recruitment process is crucial, says Coutts's Ms Prabhu. “It is important to find someone who not only has the right experience but who also understands the culture and value of the family and the business. A formal recruitment process is advisable, which both the family and the business could be part of,” she says.

Indeed, having non-family managers could give a family business a more outward-looking perspective, bringing in new, external business experience, and helping develop a balanced board.

For firms that have successfully found a professional management team, the next challenge is empowering them. “While family members intrinsically fear being ousted by professional management teams at the board level and having the family hijacked towards a totally different path, the unwillingness to empower an independent board of directors to chart new strategies will often result in a weak professional management team that is susceptible to getting entangled in the web of family relational issues,” says Bank of Singapore's Mr Lee.

To get around this, professional assistance in tweaking the ownership and management structures will be crucial to ensure that management responsibilities are entrusted and delegated to the professional teams, while family members retain ownership control and are able to ensure that the family business DNA and values are firmly entrenched, he adds.

“The ideal outcome would be one where the professional managers themselves fully embrace the DNA and family values, intrinsically believing in these values and are made to feel that they are as much part of the family business as the family members themselves,” says Mr Lee.

“This in turn is only possible if there is clarity in the setting of job descriptions, communication of scope of management responsibilities and boundaries, compensation and stock options incentives, expectations of career progression, performance evaluation indicators as well as dispute resolution with embedded exit mechanisms.”

Adds Ms Prabhu: “It would help to recruit someone who has experience of working with other family businesses so they understand the unique dynamics of this type of organisation. Also, the family needs to be prepared to embrace the change that a new leader may bring.”

Ultimately, there is no one-size-fits-all response to any of the challenges that can accompany succession, but starting early and being inclusive will help business leaders make the right decision, says Ms Prabhu.

And at the end of the day, the common message heard from families that planned well ring true – always remember that family harmony is key. ■