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## First generation family businesses in Asia unprepared for impending succession

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**More than four-fifths of Asian family businesses do not have a succession plan in place despite the majority expecting to handover to the next generation within five years, new research has revealed.**

Asian Business Families Governance: Cross the Chasm for Inter-Generational Change, published by the Singapore Management University (SMU) and Deloitte, found that 83% of Asian families do not have concrete succession plans even though 85% expect to pass on their businesses in five years or less.

The report also found that 68% of respondents were in their first generation and advised caution due to the difficulties of transitioning from the founding generation to the second generation.

Professor Annie Koh, vice president for business development at SMU and co-author of the study, said: "While 68% of the families have not experienced a leadership transition, 31% have shortlisted potential successors: however, their succession processes are neither regularly reviewed nor updated by a board."

According to the study, 12% of Asian family businesses had a working governing body as elected by family members, 40% had not considered such a structure at all.

The survey revealed that there is widespread use of informal governance practices, with informal meetings (65%), family reunions (49%), and other modes of communication (49%) considered useful venues for reflecting on the complex relationships of family, ownership and the business.

In order to ensure the longevity of Asian family businesses, the study suggested a triple-pronged attack of reinvesting profits, engaging the next generation, and planning for succession early.

"Engaging the next generation early resulted in a higher level of commitment and accountability towards the business. As such, robust succession planning and family governance policies coupled with reinvestment strategies can have a transformative impact on sustainability and continuity of the business," Koh said.

Separately, 77% of family businesses in Asia prefer to reinvest earnings back into the business rather than distribute them as dividends, as they are focused on the long-term future of their operations, according to the report.

The study concluded with a quote from second-gen Christina Lim, head of investor relations at Indonesia's Harita Group, who stressed the importance of regularly revisiting a company's vision and mission.

"This is important to align the management, so to have clear strategies and objectives. When it comes to making decisions regarding the family and the business, the family discusses together and certain matters will be decided by an older sibling as the leader in charge. If we cannot

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resolve it within the family, we seek the input from our non-family board members to shed more light," she said.

Of the 102 families surveyed, 36 families were from Singapore and 10 were from India; the remaining were 18 from Indonesia, 34 from Asia, and four from Europe, the US and Australia.