

Seller's Remorse

Are you a family business or a business family? The answer could decide whether your children are happy

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In Europe there has been a trend for wealthy families to sell their operating businesses and become “financial families”, wealthy people with money to invest but no factories, shops or warehouses. Many regret it. Asian families, it appears, are unlikely to make the same mistake.

A recent report by the law firm Withers called *The Meaning of Wealth in the 21st Century* asked families from across the world about their approach to wealth. The most striking part was when members of several European financial families spoke of their regret at cashing out.

“Selling my operating businesses was the biggest mistake I have made,” said one. Another said: “We are industrialists: my father and his brother created our family business, but we have shifted too much into finance. That was our big mistake.” A third added: “I do pine for a business that makes stuff.”

Obviously, not all families which sold their businesses have this seller’s remorse, and some have created good investment firms that make money and benefit society.

But the Withers report suggests that when a family sells the operating business it often loses its direction, and moves into an area – finance – that was never its strength. It quickly becomes necessary to bring in outside experts, meaning that the family loses control and ultimately its identity.

Intriguingly, it seems that Asian families are not falling into this trap. They see that “wealth can only be grown in new markets, new segments, new businesses,” says Professor Annie Koh of Singapore Management University. If you simply “monetise the old wealth” it will never grow, she says. The important distinction here is between families that want to keep growing their wealth and those who want to cash in their chips.

There are families from both Asia and Europe who fall into each category, of course, and there are factors other than culture at play. That said, the classic European family business was narrow and deep, specialising in one niche, but the typical rising Asian businesses wants to become as broad as possible as quickly as possible, and keep evolving.

As Prof Koh says, the new Asian families are not people who own a “family business”, but a “business family”. You might have made your money making doorbells, but the doorbells are not the point: the business is.

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The outlook of the family's younger members reinforces this trend. Koh says they see the original business as the "mothership" and that they want to spin off their own businesses into new geographies and sectors using the family's wealth and contacts.

European families which sold the businesses were perhaps lulled into a false sense of security by benign market conditions before 2008, believing that the sorts of shocks that could wipe out their wealth were a thing of the past. Perhaps they also failed to see the opportunities that globalization would offer.

Since then, we've seen that the world is still a volatile place, and it's clear that the skills of wealth creation are a far valuable commodity than mere money.