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**Headline: Leaving family business in good hands**

# Leaving family business in good hands

**In the first of a two-part series on how to ensure a smooth succession in family business, Jeremy Koh looks at how to bring in and groom future leaders**


Wee Tiong Holdings founder Tan Siong Kern (centre), with his sons Wee Tiong (left), the firm's finance director, and Wee Beng, its chief executive. Mr Tan Wee Beng had initially planned to pursue an engineering career, but acceded to his father's request to join the family business. ST PHOTO: AZIZ HUSSIN

Many companies in Asia are family-owned but a large number have not tackled the tricky question of how to pass this substantial amount of wealth on to the next generation.

The size of the potential problem can be gauged by the fact that 80 per cent to 90 per cent of large companies in South-east Asia are family-owned, according to a 2013 report by accounting giant KPMG.

Only 58 per cent of family-owned businesses here have a succession plan, according to a study by the Economist Intelligence Unit released in January.

A smooth succession plan increases the odds that a business will remain in the hands of a capable leader. It also protects the operation against family feuds, which are a regular feature in the news.

Professor Annie Koh, vice-president for the office of business development at Singapore Management University, cites the row that erupted in South Korea in July when the younger son of 92-year-old Lotte Group founder Shin Kyuk Ho ousted his father from the Lotte Holdings chairman's position.

The son, who had expected to take the reins of the food and retail conglomerate, acted after his father suddenly shifted his support to his elder son.

Both brothers have been threatening to initiate court proceedings against each other.

So how should families undertake to ensure a smooth succession and prevent such conflict?

The Sunday Times presents some best practices in a two-part series.

### RAISE THE TOPIC OF SUCCESSION EARLY

Many families do not speak to their children about what their future roles in the business might be when they eventually start work.

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# Involve the young in talks on future direction

FROM B18

Without this critical information, both the business and the younger generation cannot effectively plan for the future.

Surprises result when some children find that their expectations of how they will be involved in the business turn out to be false, says Mr Sandeep Sharma, co-head of HSBC global private bank for South-east Asia.

This occurred at commodities trading firm Wee Tiong Holdings. Company founder Tan Siong Kern had plans for his youngest son Wee Beng to enter the business upon graduation but he was keen on an engineering career.

Mr Tan Wee Beng, who is now chief executive, says: "I was helping out in the office (after I had just graduated and told him), 'Hey I got a job offer at SIA Engineering; I probably will just take it up'."

He says his father replied: "No, I need you to come into the family business right away."

"I said, 'No, we didn't speak about this before.' So that was the first challenge – I didn't quite have a choice as family duty calls."

Things turned out fine eventually as Mr Tan was open to the opportunity and eventually took over the reins of the business, leading it to greater heights: Annual revenue has increased by about 131 per cent to about $462.5 million over the past 10 years under his charge.

However, few would disagree that communicating earlier about business plans reduces the risk of conflict and disruption in the transition process.

Involving the younger generation in discussions on the family business' performance, needs and future direction at annual family meetings is a "best practice", says Dr Henry Hirzel, managing director for the Family Service Group and senior adviser for family, business and wealth at UBS.

These get-togethers, which also include leisure activities, will expose the younger generation to how future leaders are chosen and the values that drive the business. They can then adapt themselves to the leadership requirements.

Bringing children to internal business meetings also stimulates discussion on what future role they can play in the business, adds Mr Royce Teo, regional head of Treasures Private Client and Treasures at DBS Bank.

### WOOING FAMILY MEMBERS INTO THE BUSINESSES

Some family members just do not have an interest in the business and are not receptive to joining.

To address this, some firms have offered or created roles better aligned with these individuals' interests to first draw them into the company, in the hope that, in time, they will become interested in the company's core work.

"If you tell a family member (who is interested in art that he needs) an engineering degree, the guy will say, 'No, thanks, I'm continuing with my art because I'm an artist'," says Mr Evrard Bordier, managing partner at Swiss private bank Bordier & Cie and chief executive of Bordier & Cie Singapore.

The company could draw this family member into the operation by inviting him to sell art or open galleries for the business, with the hope he would acquire a deeper interest in the irm. "Everybody changes in their interest. You're trying to interest people. I was a lawyer (by training)," he adds.

There are also similarities between most fields of study so someone who appreciates art could also end up appreciating engineering.

One of Mr Bordier's cousins, Ms Camille Bordier, was brought into the marketing and communications team to cater to her interest in marketing and is happy not to move into the private banking part of the business.

Bordier & Cie Singapore chief executive Evrard Bordier says one of his cousins was brought into the marketing and communications team to cater to her interest in marketing and is happy not to move into the private banking part of the business. ST PHOTO: SEAH KWANG PENG

### TRAINING THE NEXT GENERATION

When family members start work, the question of how they should be groomed for bigger roles in the business arises.

Yeo Hong Construction & Engineering, which builds and maintains chemical plants, trains incoming young family members by first assigning them junior roles in areas such as mechanical engineering, logistics and quality assurance so they can gain the experience required to take on larger roles.

Some family businesses, however, want their children to start their careers with a senior role so they are prepared earlier for larger roles. But these families may find that it is too risky for their kids to take on leading roles within the business immediately, especially if a lot of money is at stake.

"A multibillion-dollar business is too large an enterprise to let somebody just try and fail," says Ms Stefanie Yuen Thio, managing director at law firm TSMP Law Corp.

INTERGENERATIONAL ARRANGEMENT

> **We had a situation where we had third-party partners, who were only there to bridge the gap between the time when my father retired and my brothers were ready to take over.**

**MR EVRARD BORDIER**, managing partner at Swiss private bank Bordier & Cie and chief executive of Bordier & Cie Singapore

HIGH STAKES INVOLVED

> **A multibillion-dollar business is too large an enterprise to let somebody just try and fail.**

**MS STEFANIE YUEN THIO**, managing director at law firm TSMP Law Corp, on how it is risky to let inexperienced family members take up leading roles in a business too early on

Increasingly, such families buy a smaller $5 million to $10 million revenue company, to let their son or daughter first run that business.

That business becomes a "live business lab" or training ground for the child, by which the family also assesses if he or she is equipped to handle larger roles.

At Wee Tiong Holdings, Mr Tan Wee Beng was trained in the business by undertaking important commodity trading tasks and supporting operational endeavours.

He worked closely with his father in the more central commodity trading roles for the first year and was then deemed fit to have primary responsibility over core business areas.

### GETTING OUTSIDE HELP

Most family businesses want to hire only family members for leadership roles but sometimes this is just not possible.

There may be a period when the head is near retirement but the next generation is too young to take on a senior leadership role.

"We had a situation where we had third-party partners, who were only there to bridge the gap etween the time when my father retired and my brothers were ready to take over," says Mr Bordier. The external partners "were happy to have a better job... But it was a very clear set-up from beginning that this would be an intergenerational situation".

After five to seven years, Mr Bordier's brothers were ready to become partners. The external partners, however, could remain partners till retirement.

Yeo Hong is also prepared to have non-family members become directors or own shares in the firm should they be found more competent relative to the current or next generation.

Wee Tiong Holdings, however, is more cautious on letting an external party run the company as it hopes to protect its trade secrets.

There is always the danger that when an external party knows the company's terms of trade with its clients and its other trade secrets, he or she could poach these clients or use the information against the company after leaving. It is only after knowing and trusting an individual for a long time that the Tan family grooms him or her to perform its main trading roles.

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## Young family members start from the bottom at Yeo Hong

Family has been always crucial at Yeo Hong Construction and Engineering.

The firm, which was founded in 1973 as a sole proprietorship, is still almost entirely owned by family members, who also hold all the board seats.

All directors at Yeo Hong are first and second generation family members and shareholders are also mostly family members.

Yeo Hong, which maintains and builds chemical plants, has thrived under family direction.

When the company was incorporated in 1981, it had just $200,000 in capital. Now it has about $5 million with annual revenue reaching about $13 million last year.

Director Yeo Han Din told The Sunday Times that the company requires young family members to start in junior roles and work up.

"(Family members) have to start from the bottom first, to understudy (seniors). Based on his achievements and accomplishment, he can move up to higher roles," he says.

"Without showing credentials, it's difficult to command respect... Without sufficient knowledge, he can't manage a key role and offer solutions."

But Mr Yeo is prepared to have non-family members become directors or own shares if they prove to be more competent than family members.

"If there's someone who is better able to lead and steer the company forward, we are more than happy to authorise him to lead the company business, because it also benefits the company shareholders."

The Yeo family however, would still retain shares, monitor the operations to ensure that they are running smoothly, and mentor incoming leaders.

Shareholders are called to vote on issues that directors are not able to agree on. A simple majority vote decides issues.

They have voted in the company's interest and not favoured more immediate family members because voting impartially will benefit them through share value growth, says Mr Yeo.

Moreover, favouring a family member whose work does not justify this could be a disservice; a better step could be to encourage him or her to leave.

"If (a family member) is stuck in family business and does not aspire to grow further, he will forever be stagnant.

"Whereas when you work elsewhere, you may find greener pastures and rise up the ranks very fast," says Mr Yeo.

**Jeremy Koh**