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Without a plan, the risk of business failure is high as the transition to the next generation looms.

By
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Family businesses dominate the economies of Southeast Asia and China, yet many of these families aren't as prepared for the founder to step aside as they should be.

That can be a wealth-devouring mistake. More than 200 publicly-listed companies, run by Chinese families in China, Taiwan and Hong Kong, lost nearly 60% of their value in the years before and after the handover to a successor, Chinese University of Hong Kong Professor Joseph Fan revealed in research published last year. That's a pretty staggering figure.

A key to why this may be the case is how early and how well the company founders prepare either for their children, or an outside professional, to take over. The better prepared a company is, the more likely the transition will go smoothly. But the only way to be prepared is to start talking about it.

This is true no matter where you live. "What all family businesses have in common and the number one topic is always succession," says Jan Olszewski, CEO of Owners Place, a global marketplace for family businesses and offices that he founded. "If the family business is successful with succession then the success continues, but if it's not a good succession, this could be the end of the family business."

Olszewski was in Hong Kong for a UBS Wealth Management seminar with about 30 next generation family members from across the globe, many of whom have just taken on new roles within their family businesses. Olszewski's parents recently hired an outside CEO to run their family firm, Solaris Bus & Coach, in Poland, and six months ago, they gave Olszewski the nod to test out his entrepreneurial instincts.

"They saw potential in my idea," he says, and they told him, "You learn as much starting your own business because you are really on your own."

In the end, it's each successor's own choice whether to stick with the family business or not, says Britta Gruenig Castelli, program director of UBS Dialogue, which ran the wealth management event. "But it's important to have a serious conversation about it with others in the same situation and others back home in the family."

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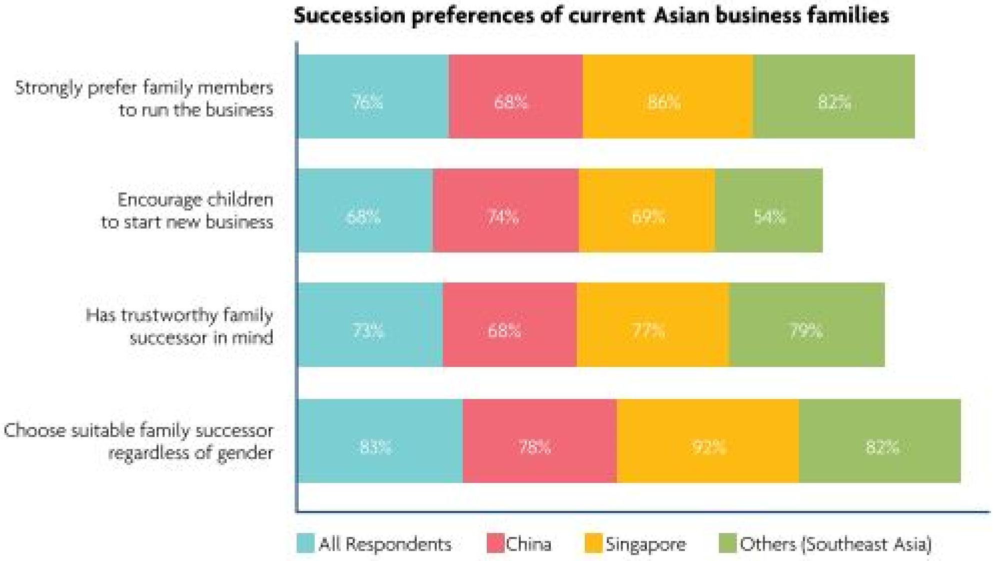

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5-Agree, 6-Somewhat Agree, 7-Totally Agree) *Source: UOB/Singapore Management University*

Those talks can be the foundation of a strategic plan for the future, and it's a discussion that needs to start when the founder is actively involved in the business. As Bernard Rennell, HSBC Private Bank's global head of family governance and family enterprise succession, puts it, "For a family to succeed over the longer term, it needs a strategy to succeed over the longer term."

Earlier this month HSBC held a seminar in Shanghai for wealthy clients with family businesses. In a podcast before the event, Rennell noted that without a plan, success erodes after the first generation. "What is unfortunate about that is not just the destruction of wealth by the family, but the disputes that go with it."

Disputes can be common in family businesses, but they usually don't center on business or economic issues but on relationship issues, says Johnben Loy, a therapist and consultant in Malaysia, who spoke at the UBS seminar. "In the family business, the struggle is dealing with family dynamics as well as business dynamics, and the two are not always congruent with each other. Failing to manage those dynamics is often times to the detriment of a successful succession. "

A recent UOB-sponsored study by Singapore Management University, in collaboration with Zhejiang University, found more than three out of four business families in China and Southeast Asia want family members to take over their companies, not outside professionals, although they are willing to have outsiders take specialist roles such as finance or HR within their firms. The families surveyed saw value, though, in having potential family business leaders strike out on their own, with 68% saying they encourage their children to start new businesses.

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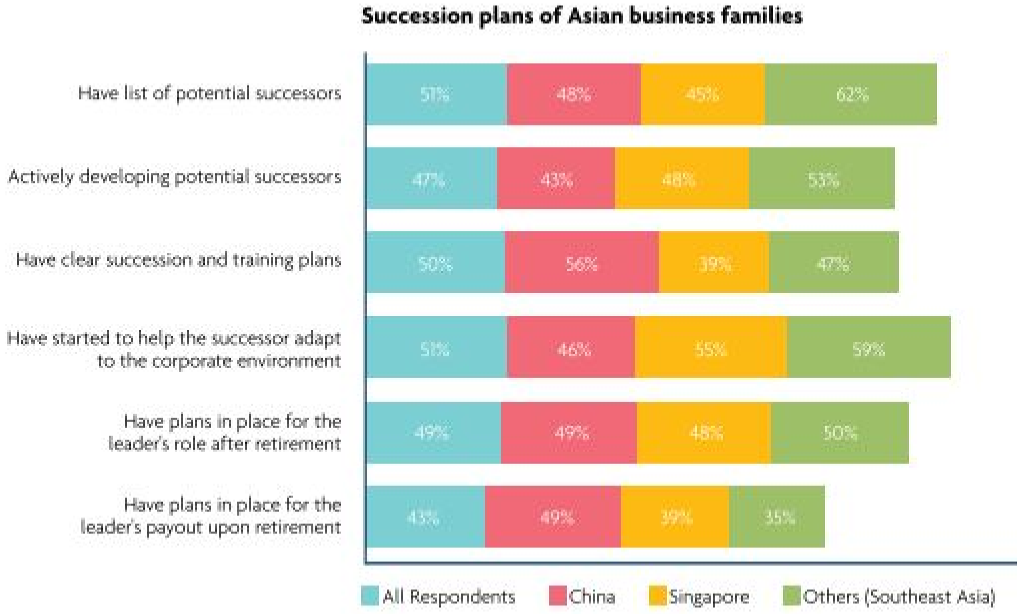

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5-True, 6-Somewhat True, 7-Very True) *Source: UOB/Singapore Management University*

Most family consultants would agree having younger generation family members get outside experience is important, says Loy, himself a member of the second generation of a business family. Some families will create a seed fund their children can use to try a business on their own. "If you fail, everyone is watching," Loy says. "That increases your motivation to really slog it out and make it work."

The do-it-yourself strategy allows younger family members to gain confidence in their own ability to run the show. Should the time come to take over the family business, children who have built their own company are likely more ready for the role and more prepared to gain a sense of ownership in the business. They won't just fill the shoes left by their parents.

"When I have interviewed people who succeed in the second generation, and the business is on a growing path, they typically have a story to tell about how they did it," Loy says. "I call them the new patriarchs; they refer to themselves as kind of like the founder."

The SMU study points out that creating a systematic succession plan well in advance is critical for family businesses to succeed. That's because the process can take five to 10 years. Interestingly, half of their survey respondents (192 business families in all) either have a clear plan or have started to develop their potential successor, although the authors say families in Asia are at a point where there needs to be "greater collaboration between various entities – family members and external professional managers, stakeholders and investors."

Getting this right isn't easy. At the UBS seminar Olszewski heard his Asian peers express frustration at being obligated to step into a job they don't want. They "don't want to speak up to the older generation and say 'no'", he says.

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But selling the family business can be a taboo topic in Asia, particularly when the founder is alive. "It would be seen as disrespectful," Loy says. "Many Southeast Asian countries are infused, still, with Confucian values where the patriarch is venerated and respected."

Everywhere in the world entrepreneurs who start family businesses expect their legacy to continue. "Many times the founder has a dream, and the dream is about the dynasty, not only about being an entrepreneur for one generation," says UBS's Gruenig Castelli.

For Asian family businesses that want to fulfill this dream, it's time to start talking.