

ViewPoint, Recommended

Viewpoint: How a family advisory panel can smooth succession

Annie Koh March 2, 2017



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A big proportion of family businesses in Asia is in the process of transitioning to the second generation, or beyond, of management. In fact, **our research** has found that 85% of businesses in Asia are expecting to undertake succession planning within five years or less. But the intergenerational transfer of business can often prove difficult for many regional businesses.

In Asia, the dominance of the patriarch in business is still very strong. This often means that the patriarch isn't questioned on issues like succession. But this unquestionable authority sometimes isn't the best way to reassure the next gen, particularly a next gen educated abroad.

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Also, the next gen increasingly has specific areas and passions that they want to pursue. They might not be willing to come into the business and to take over the running of it. And, of course, there will also be the question of whether they are ready. So this can create a conundrum for succession. Maybe a way of smoothing that is to bring in professional outsiders to objectively balance the expectations of both current and next generations.

Our research has led us to conclude that a good hybrid solution to resolve this potential conundrum is to create a family advisory panel. Such a panel isn't a board of directors, which many privately-controlled Asian family businesses are often cautious of setting up. In fact, the panel is a transitional body that is designed to smooth the transition and help professionalise the management of the company.

Ideally, a family advisory panel should be made up of non-family professionals and family members. Indeed, the panel can also be a way of engaging with non-professional managers. Not only would the panel be instrumental to the successful transition, but it can also be used as a sort of a test tube to see how the various groups - the current generation, the next generation, and non-family professionals – can harmoniously work together.



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All this will help to professionalise the management of the business as it is handed over from one generation of management and control to the next generation. Such a panel can also help to reassure the next gen and facilitate their enthusiasm to join the family business. If the next gen can see that they don't report directly to their parents, but rather are mentored by a senior non-family professional, then this can also help to smooth the transition.

Many next gens these days are also following their own entrepreneurial endeavours outside of the core family business. In Singapore, two good examples of this are **Michelle Yong**, a 4th generation member of a prominent property dynasty, and **Grace Tan**, a 3rd generation member of Sia Huat family. Both went on to run successful subsidiaries away from the core of the family business. They are proving themselves to the family and this will help with business transition.

The other benefit of running non-core businesses, or a startup is that these businesses can be useful to the core business later on. They can also bring in many more non-family professionals like startup teams. And of course, this process can help to preserve and promote harmony among family members and the core business.

This process can also signal to the rest of the family that the next generation family member is ready and deserving of a critical role in the family business in the event that they come back to the core business.

The idea of a family advisory panel, of course, isn't just something to be used in the Asian context - it will have universal appeal. All family businesses are different and whether it is an appropriate model for them will depend on their own set of circumstance. But for some family businesses, such a panel might just be crucial to ensuring a successfully navigated intergenerational transfer - and continued business success.

Professor Annie Koh is vice president for Office of Business Development, Singapore Management University. A practice professor of finance, Annie also holds the position of academic director at the Business Families Institute (BFI @ SMU) in addition to other roles