COVER STORY

Leadership transference still Achilles' heel of Asian family businesses

BY **LEVINA LIM**

Back in 2011, the tussle between Macau tycoon Stanley Ho's wives created uncertainty over the direction of his business empire and caused the share price of Hong Kong-listed SJM Holdings Ltd, which operates his Macau casino business, to plunge.

The saga, which saw the disclosure of handwritten notes and even YouTube clips, serves as a lesson for family-owned businesses on the need for proper and watertight succession plans — for some business empires, even to the extent of restructuring the group.

It is common knowledge that family-owned enterprises have a high mortality rate, yet many Malaysian business founders are still not taking adequate steps to ensure their businesses thrive for a long time.

According to PwC Malaysia senior executive director and entrepreneurial and private clients leader Fung Mei Lin, the popular Chinese saying that "wealth never survives three generations" holds true among family-run firms, with only 12% lasting as far as the third generation and a mere 1% surviving beyond the fifth.

"Many [family businesses] started out through sheer diligence and hard work and with a little bit of luck, but to take it through many generations, you will need more than that," she explains.

In spite of that, first-generation family-owned businesses have yet to take the bull by the horns by putting down in writing a formalised plan, documenting the conditions for leadership transference to ensure the sustainability of their businesses.

This, Fung says, is due to the delicate nature of the topic.

"Topics like these attract a lot of emotions ... in our Global Family Business Survey, we found that while 68% of Malaysian family-owned businesses have given thought to succession planning, only 16% had their plans documented," she tells *The Edge*, stressing the need for a clearly communicated succession plan.

According to *The Economist*, Southeast Asia has one of the largest proportions of family-run enterprises in the world, making up 85% of the US$1 billion-plus businesses in the region.

This compares with around 75% in Latin America, 67% in India and 65% in the Middle East.

Leadership transference seems to be the Achilles' heel for many family businesses — the question of succession is a major source of contention if not managed well.

"It gets very emotional when that happens, so you need to strive to separate family and business issues," Fung says, pointing out that families have gone to court and familial ties soured as a result of neglecting to "professionalise the family".

She says while some Malaysian family-owned businesses like YTL Corp Bhd have survived several generations, the majority are relatively "young", in that most are still in the first and second generations.

"If a business can make it through the third generation, it most likely has had a succession plan," she says, adding that the larger and more diverse the family, the more a succession plan could help avoid conflict.

She notes that traditionally, successors are chosen by the existing leaders based on family birth order. Hence, problems may arise when the eldest child lacks interest in the business or is less capable than a younger sibling or cousin.

"You need to apply the principle of fairness and develop a succession plan based on merit and what the potential successor can contribute to the business," says Fung.

Interestingly, Malaysian family-owned companies are more reluctant than their Singaporean counterparts to sell off their businesses or to float the business in an initial public offering — only 18% of Malaysian family-owned firms have plans to exit their businesses, compared with more than 30% of Singaporean companies.

In cases where family members are not interested in taking over the company, external managers could be hired as a step towards professionalising the business.

"The concept is that the person must be an effective shareholder who has his or her finger on the pulse of the business but doesn't get involved in day-to-day [operations].

"He or she will source for new business opportunities and bring them to management," Fung says, adding that external managers should be given autonomy in managing the business.

According to her, as many as 36% of Malaysian companies surveyed have plans to maintain a controlling stake in the business while allowing the management to be run by professionals.

Given an increasingly challenging economic landscape, heightened competition and changing technology have forced family-owned enterprises to adapt and conduct their businesses differently.

What this means is that the responsibility for change increasingly rests on the shoulders of the second-generation family businesses. Unfortunately, it is not always plain sailing.

"We have a case where the daughter of a family-owned company mooted a business plan to outsource non-value-added activities to make the business more cost-efficient. However, this was met with resistance from other family members who were not used to the idea," says Fung.

She notes that this is a challenge that second-generation family businesses have to face as they will need to gain the confidence of the founders — their own parents — to implement new ideas that will take the business to the next stage of growth.

"Professionalising the family and professionalising the business are easier said than done because ultimately, it is about changing mindsets," Fung adds. E