MBA: MANAGING BUSINESS IN ASIA

# PLANNING FOR SUCCESSION IS CRUCIAL

**Tycoons calling the shots without input from offspring can be a barrier to the future success and survival of Asian business families**

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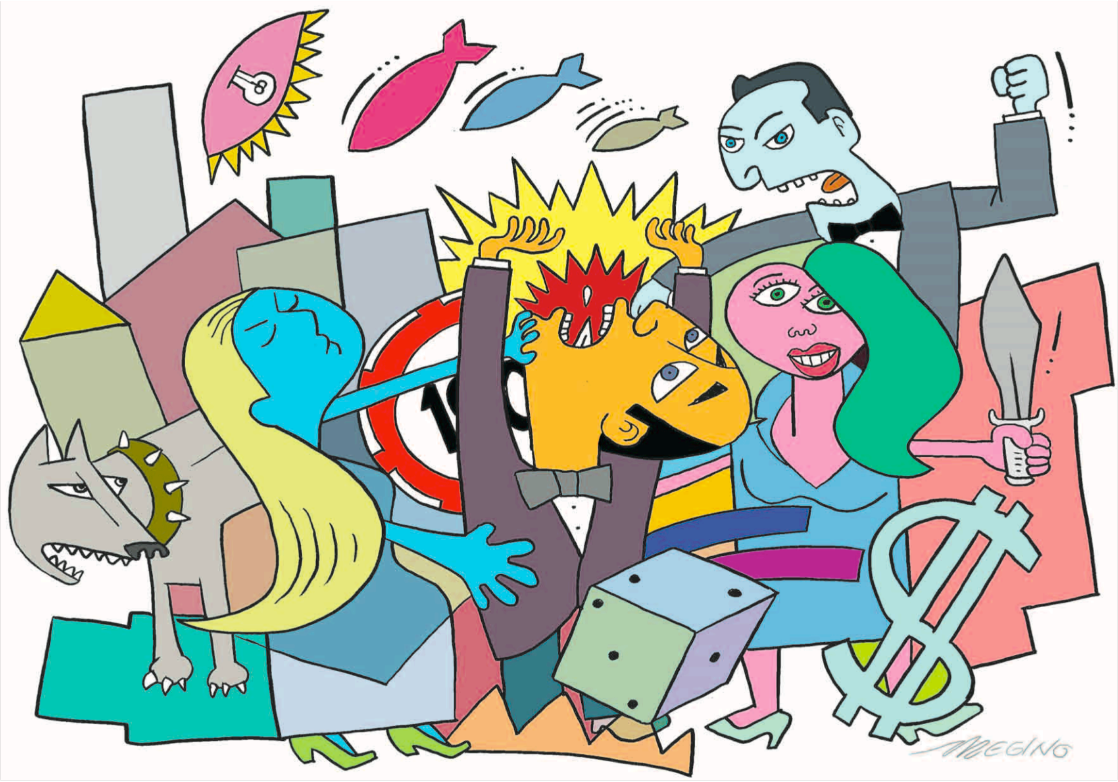


Illustration: Martin Megino

It is unfortunate that a man as successful as casino mogul Stanley Ho Hung-sun should have to spend the last years of his life fighting his own offspring over how his business empire should be divided. Or that octogenarian matriarch Kwong Siu-hing should have had to step up to become chairwoman of Sun Hung Kai Properties, founded by her late husband, Kwok Tak-seng, and one of the world's largest real estate developers, because of a long-running spat involving their three adult sons.

The Ho and Kwok families, whose respective feuds appear to have been resolved, have three things in common. First, they are among Asia's most successful business owners. Second, the families struggled with chronic conflict despite a successful business performance because they failed to plan ahead for a successful transfer of ownership and leadership to the next generation. Third, the families have, in the past, followed the potentially catastrophic "majority-of-one" leadership model.

The majority-of-one leadership model is an all-too frequent barrier to Asian business families learning to work and plan their future together. Although found throughout the world, it is particularly prevalent among Asian cultures and practised by many successful entrepreneurs. It is not all bad. Singularity of leadership works well in the start-up and growth phases but leads to problems when a founder-entrepreneur is unwilling to move to a shared leadership model with adult children built on planning and governance processes, which can damage both the business and the family.

On the business side, it is well researched that people make a strong personal commitment to a future strategy when they participate fully in the planning and decision-making. Personal involvement is also useful to develop an understanding of the business' culture and demands – as well as learning how to communicate with other family members about the business. It is much easier for members of the next generation to learn to work together with the guidance and support of their family than to struggle to develop the skills on their own.

On the family side, the emotional injuries can have even more serious long-term effects. An adult son or daughter who is not allowed to participate in the planning and decision-making for the family business can perceive their parent's reluctance to include them as a lack of trust. This, in turn, can lead to feelings of unworthiness and powerlessness. Such negative emotions are often expressed by a loss of commitment or even disloyalty to the family or business. Family members who are excluded may act out their insecurity and frustrations through family rivalry and even confrontational behaviour against their parent.

While the principles and benefits of strategy for businesses are well recognised, the idea of planning for the business-owning family is less well understood. The traditional family firm may have had a sound business strategy, but planning for succession was mostly neglected, or triggered by specific events such as the founder's retirement or death. However, many business-owning families today are beginning to recognise that meetings to plan the family's future ownership and leadership really do work. Such meetings allow family members to communicate about their values, vision, strategies, investment and governance – and these discussions build a shared understanding of the situation and an agenda for thinking about the future.

Families that discuss their shared future find that, while there may be disagreements or even conflicts, it is much more effective than ignoring the issues until they become a serious threat to sustaining the family's participation and ownership. It is unlikely that the larger family will all share the same dedication to the business as the founder, but working together as a family can actually help strengthen the commitment of the next generation. It is predictable, but often surprising to the second or third generations that they should face a new set of family challenges such as how to share ownership among a growing number of family members; how to decide who will lead the business; and what the rights and responsibilities of family owners are.

Many family disputes involve career and ownership rights and, if the family has not planned and developed agreements together, then every career move or dividend decision has the potential to become a family flashpoint. On the other hand, if there are clear agreements

**Stanley Ho was hit by a family feud over his empire.** Photo: SCMP Pictures

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and plans – on employment for example – then procedure and consistency, not personalities and power, become the drivers of family interactions.

One model that many business families use is something called the parallel planning process framework. This approach uses values and vision to drive strategy, investment and governance actions that exploit business opportunities and address the family's concerns.

The first planning step is for the family to meet and clarify its values and then its future vision for the business – and the family's contribution to that future.

The family's values shape the vision statement, which determines what the business will become, and consequently its business strategy. Many business-owning families espouse values and a vision of a strong commitment to their firm's future success, but this is only the first step, because strategy investment and governance actions are required to support the business' long-term performance.

While the patriarch or matriarch is active there are usually few visible signs of conflict because they are heads of the business and family. Serious conflicts typically only surface when the senior leader is no longer in the picture. At that point, seemingly insignificant issues that have never been addressed explode into family dramas and protracted disputes. The real sadness of this situation is that the founder's legacy becomes acrimony, family politics and lawsuits rather than shared family-and-business stewardship.

Perhaps the most destructive aspect of the majority-of-one leadership model is the dependency and complacency that it creates because the senior leader does not allow members of the next generation to test their skills. Meanwhile, the business' success lulls the family into accepting the status quo by providing the family members with significant wealth and prestige – even if the cost is a lack of engagement and personal development.

It is too late for the Ho and Kwok families to take preventative measures now. But there is still hope for many other Asian businesses, if only the "one in the majority" can start the parallel planning process right away. Of course, many founder entrepreneurs do not believe in planning for ownership or leadership transitions because they are afraid of the emotional minefields that such planning may expose. But history shows time and again and throughout the world that the alternative is worse.

As one third-generation European family member put it: "My grandparents left us a great business legacy, recognised around the world, but I am afraid the emotional price we are all paying for ongoing conflicts and disputes is perhaps too great."

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