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Business Dynasties Need to Plan for the Delicate Task of Succession

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The very public battle among Stanley Ho's extended family over the 89-year-old casino tycoon's estate — and in particular, his stake in a Macao casino empire estimated to be worth about $1.5 billion — has brought to the fore the need for wealthy Asian families to plan for business succession.

Around 70 percent of Hong Kong's listed companies are controlled either by their founders or by members of founding families, according to Joseph Fan, a co-director of the Institute of Economics and Finance at the Chinese University of Hong Kong. Similarly high percentages of family control can be found in Indonesia, Malaysia and South Korea, he said.

Successful succession within a family business involves not just deciding how the shares in the business will be divided, but also who will be in charge of the business and who will make the final decisions after the transfer.

Many older Asian business chiefs have traditionally resisted making a will, fearing that such documents might be a bad omen. Patriarchs — and in Asia, the head of the family typically is male — also tend to keep their cards close to their chest to retain control of their business and maintain their public standing.

Advisers agree, however, that succession planning should not be put off. They say it should be actively considered and the plans revised on a regular basis.

"Asia is facing generational transition in many family businesses right now," said Bernard Fung, head of family office services for Singapore at Credit Suisse.

"Founders have been very successful at building their business," Mr. Fung continued. "In most cases they are of Chinese origin and carry a very built-in culture of Confucian values, such as the greater good."

"The second generation is highly educated, often in the West, and they come back with fresh, different ideas," he added. "Very often, it's hard to bridge both side's views."

One relatively new way the succession issue is tackled in Asia is through the establishment of a family council, which includes various members of the family, typically some involved in the business, and some not. The family council in turn devises a family constitution, or charter, that documents the family's values, outlines how its members will interact with each other, and explains how to resolve business-related issues like ownership, voting control and employment.

Mr. Fung said a family council could help multigenerational families manage issues related to the business in the present, and also be a forum "where the family thinks about the next generation of family leaders and how to groom them and train them."

Terry Alan Farris, head of family office services at DBS Private Bank, said the concept of a family charter and a family council was not new in the West, but in Asia "this concept is just coming of age."

"A family council is about bringing in different generations into the decision-making process," Mr. Farris said. "The council is typically a flat structure and decisions are made as a group. Sometimes the biggest challenge is for the patriarch to be willing to give up some decision-making control."

Christian Stewart, managing director of Family Legacy Asia, a company based in Hong Kong that provides advice to Asian families on succession, suggested setting up a family council before setting up a charter.

"Family businesses all over the world are fundamentally the same: there is an overlap between the family system and the business system," Mr. Stewart said.

"Within the Asian family system the rule tends to be to treat everybody equally," he said. "But when these rules are applied to the business, sooner or later it will lead to internal conflicts."

"The majority of Asian family businesses fail because of internal conflicts, and a lot of that stems from applying family-system rules in the business," he added.

To limit potential conflicts, a good communication system needs to be created. The family council, Mr. Stewart said, offers a forum for discussing these overlaps between the family and the business, as long as it is set up properly.

"You should formalize the council, decide on the number of times you will meet, and set up formal rules for the meetings to ensure good communication so they don't turn into shouting matches and become dominated by the patriarch," Mr. Stewart said. "This means that, in practice, families will need an outsider to come in to help them set up these rules because they often change the ways a family naturally works together."

A family constitution formalizes the rules about who is in the family council, how the council makes decisions, and how it votes. "The key thing about this is having a fair process for the family members to make decisions together," Mr. Stewart said. "It's all about joint-decision making."

When forming a family council, private bankers advise early consideration of all the potential and predictable areas of conflict that family businesses typically face. These can include how shares in the business will be transferred, how shares will be valued, what type of dividends will be given out, what type of compensation family members working in the business will receive and what the criteria are that justify having someone work in the business.

Once the constitution is drawn up and agreed upon, the family council should meet regularly, say every quarter, to work on a series of policies that will state how the family business approaches conflict issues. These policies will get added on to the family constitution, and might include positions on employment, dividend payments, compensation and an exit policy.

"It's through making these policies that you can resolve a lot of unnecessary conflicts to start with," Mr. Stewart said.

He added that writing a family constitution and forming a family council that meets regularly were both essential steps. "The biggest mistake is that people tend to think, 'If we had a family rule book, a family constitution, that is all we need to do,' when it's usually just the starting point," he said.

And in cases where ownership of the company is not the same as responsibility for the business, setting up a family council and charter would help in passing the business on, Mr. Farris said. Their value lay in providing guidelines on the business's strategic plans, whoever runs it, he added.

Mr. Fung said that the family council could also consider setting up an advisory board of nonfamily members to act as an independent board of directors.

The board could include subject-matter experts, like bankers and lawyers, but it should also have someone who understands the family and how its members interact, he said.