The tricky business of succession

Successful family-run firms strike a balance between professionalising management and harmonising family dynamics

by NEO SING HWEE

SUCCESSION planning can still be an afterthought in family-owned businesses, given the complexity of talent management and the emotional demands on decision making. The Chinese adage “Wealth does not sustain beyond three generations” resonates with many family-owned enterprises. The practice of family succession planning is only gaining traction in Singapore’s fast-growing economy, with some now seeing significant success stories, considering that family-owned businesses form the backbone of Asia’s wealth and economies.

For a global research firm, a less than 10 per cent success rate on evident succession is an abhorrent observation, while there is a very high succession intention among family-owned businesses, less than a third actually survive the second generation, and even fewer make it to the third and beyond.

The challenge of succession planning is not unique to family-owned businesses but arises beyond the complexity of talent management, the intricacies of emotional attachment and cultural issues with decision making. As Yap Yew Win, a professor and associate professor at the National University of Singapore’s Business School, says in an interview with the Financial Times in June: “To talk about succession is almost like putting a curse on someone.”

With increasing succession seen as a cultural taboo in Asian societies, the issue has become a daunting platform, especially when the owner-founder retires or is no longer around.

Without a doubt, succession planning is a balancing act for all stakeholders — the company, owner and the family. For the owners, having invested so much is sometimes a lifetime’s worth of resources and effort in creating a successful business. Some may be reluctant to relinquish control; others struggle to find an internal candidate who commends the acceptance of others and has the passion and capability to drive the business as the founder did. Studies have found that the low success rate of the second generation is a result of internal succession.

While processes do not necessarily make the perfect and compatible leader, the desire to ensure succession as a qualification for an executive job is probably long gone.

Family-owned businesses are also adopting best practices from the corporate world, institutionalising corporate governance and family structures with clear roles and responsibilities to ensure that the business is well-managed. Without forces being hijacked by external managers.

The success of the family-owned business depends on the notion that a talented leader is one who can take the company in the right direction, family members or not. It is equally hard to attract the right key talent.

For all, the integration of the founder’s or family’s controlling stake and the lack of a clearly defined exit strategy for family succession can be deteriorating factors for business growth. It is common for non-family owners of the company, often familial or family, to be the founder of the founder. Singapore is now a home to a number of Chinese families that have been the backbone of Asian wealth and economies.

For a global research firm, a less than 10 per cent success rate on evident succession is an abhorrent observation, while there is a very high succession intention among family-owned businesses, less than a third actually survive the second generation, and even fewer make it to the third and beyond.

The challenge of succession planning is not unique to family-owned businesses but arises beyond the complexity of talent management, the intricacies of emotional attachment and cultural issues with decision making. As Yap Yew Win, a professor and associate professor at the National University of Singapore’s Business School, says in an interview with the Financial Times in June: “To talk about succession is almost like putting a curse on someone.”

With increasing succession seen as a cultural taboo in Asian societies, the issue has become a daunting platform, especially when the owner-founder retires or is no longer around.

Without a doubt, succession planning is a balancing act for all stakeholders — the company, owner and the family. For the owners, having invested so much is sometimes a lifetime’s worth of resources and effort in creating a successful business. Some may be reluctant to relinquish control; others struggle to find an internal candidate who commends the acceptance of others and has the passion and capability to drive the business as the founder did. Studies have found that the low success rate of the second generation is a result of internal succession.

While processes do not necessarily make the perfect and compatible leader, the desire to ensure succession as a qualification for an executive job is probably long gone.

Family-owned businesses are also adopting best practices from the corporate world, institutionalising corporate governance and family structures with clear roles and responsibilities to ensure that the business is well-managed. Without forces being hijacked by external managers.

The success of the family-owned business depends on the notion that a talented leader is one who can take the company in the right direction, family members or not. It is equally hard to attract the right key talent.

For all, the integration of the founder’s or family’s controlling stake and the lack of a clearly defined exit strategy for family succession can be deteriorating factors for business growth. It is common for non-family owners of the company, often familial or family, to be the founder of the founder. Singapore is now a home to a number of Chinese families that have been the backbone of Asian wealth and economies.

Four family-owned businesses consider an external successor to sustain the desired growth. There is also the other option of sharing or splitting ownership by way of joint ventures, partnerships, mergers and acquisitions. With more talent available, more companies are looking to penetrate or expand their regional presence, there are other opportunities for joint ventures or mergers.

These emerging growth routes, while almost unthinkable just a few years ago, are showing that China’s unique corporate culture and roster of family-owned businesses.

One common growth route, while almost unthinkable just a few years ago, is the idea of sharing or splitting ownership by way of joint ventures, partnerships, mergers and acquisitions. With more talent available, more companies are looking to penetrate or expand their regional presence, there are other opportunities for joint ventures or mergers.

These emerging growth routes, while almost unthinkable just a few years ago, are showing that China’s unique corporate culture and roster of family-owned businesses.

One common growth route, while almost unthinkable just a few years ago, is the idea of sharing or splitting ownership by way of joint ventures, partnerships, mergers and acquisitions. With more talent available, more companies are looking to penetrate or expand their regional presence, there are other opportunities for joint ventures or mergers.

These emerging growth routes, while almost unthinkable just a few years ago, are showing that China’s unique corporate culture and roster of family-owned businesses.