

executive Money

THE BUSINESS TIMES

Wednesday, December 6, 2006

Wealth effects

Family wealth brings with it a host of thorny issues, from governance to succession, and consultants are standing by to help the rich deal with their money.

GENEVIEVE CUA reports

THE saying that wealth is frittered away in three generations — along with the family business — is one that persists across cultures and has almost become received wisdom. But Insead professor Dr Randel Carlock, who teaches and researches family enterprises, questions its blanket acceptance. “It’s fun to say it, but does it have any meaning? If you do the research, you’ll find most businesses don’t last very long, family business or not ... Markets are so competitive that many companies don’t exist anymore. They go bankrupt, get acquired or just don’t survive.”

A US publication, *Family Business*, reports that most companies of all types and sizes fail within 20 years of their birth. Among family companies — “a harder breed” — less than 30 per cent survive into the second generation; barely 10 per cent make it to the third, and only about 4 per cent to the fourth, it says.

Dr Carlock, the first Berhmans Lhoist chaired professor in entrepreneurial leadership, is finding himself in fairly hot demand as a consultant to private banks. Advisory on inter-generational wealth issues and family governance is often seen as just icing on private bank services. But banks report a ready audience for family advisory among the ultra-high net worth clients — with net wealth of well over US\$5 million.

Last week, Credit Suisse Private Bank hosted a “family legacy programme”, bringing together representatives from two generations of ultra-high net worth families to Bangkok for discussions on issues that could make or break families and their businesses. The participants run a range of businesses, including textile, finance, and timber. While “next generation” workshops for clients’ children have become routine, hosting two generations of families at one site may be relatively rare.

Citigroup family experts are in Singapore this week to have one-on-one conversations with big clients. Says Citigroup family office managing director Glenn Kurlander: “The re-

ception from clients couldn’t have been better. We’re very excited about the opportunities ... Wealth is the single biggest taboo subject, much more than faith, politics or sex.”

On its part, Credit Suisse roped in Dr Carlock to talk about the challenges facing family businesses. Insead runs a programme called the Family Enterprise Challenge, a four-day affair for families to immerse themselves in the latest thinking about family enterprises, including business planning, succession, governance and conflict. This is held in France and the Singapore campus, where the next workshop will be in February 2007.

Says the bank’s managing director and head of private banking (South-east Asia and Australasia) Didier von Daeniken: “The vast majority of our Asian clients are entrepreneurs. We don’t necessarily see that in Switzerland or more mature markets ... There are complex issues around family businesses, not just the financials but the emotions.”

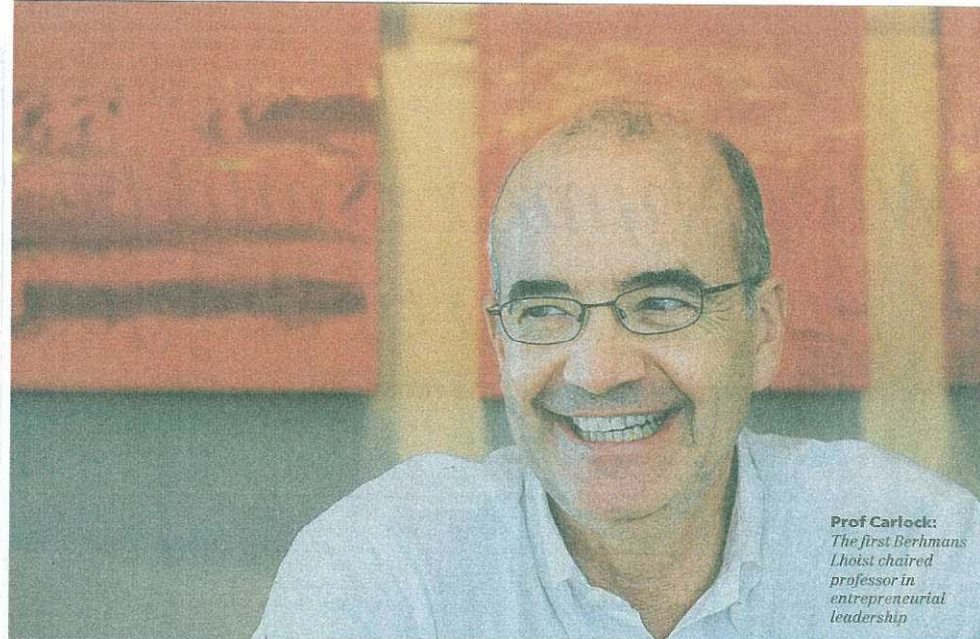
Dr Carlock, who has written a number of books and case studies on family businesses, says there are some Asian cultural idiosyncracies that make family businesses and wealth transfer acutely awkward. “In Asia, entrepreneurship is an important theme. But it’s the intersection between the family and the enterprise that we’re interested in ... In Asia, families are still creating wealth.

“We talk about family businesses being difficult because the two most important things in our lives are our families and our careers. And in a family business, they overlap. Our research looks at it in two ways. We have a financial model, but the newest thinking is the psychology of families.”

The issues include that of a child’s independence from his parents, which can be a painful process. There is also the challenge of dealing with a patriarch who retires in name, but does not give up control. “In a family business, you work for your mom or dad so the ability to become an autonomous adult is difficult. Dad signs the pay cheque and is your boss. A lot of conflict is about the children becoming different from their parents.

‘In the US, a senior retires and is respected ... but you don’t have to ask their opinion about the business. In Asia, you may have to ask your grandfather’s opinion forever.’

—Randel Carlock of Insead



Prof Carlock:
The first Berhmans Lhoist chaired professor in entrepreneurial leadership

YEN MENG JIN

Keeping it in the family

THERE are a few broad principles that family businesses can pursue if they want to forestall conflict, maintain family ties and stop their wealth dwindling away. And Insead professor Randel Carlock has spelled them out.

One is to ensure clear ownership and estate plans. “That’s where a bank can play a huge role. A business is a significant asset, because it is both a business and family asset. There has to be very thoughtful planning. If you don’t plan, you may not have enough assets for your family’s needs, or the business’ assets may not be in the right place.”

A business founder who intends to leave the business to his children should talk them — and the earlier the better. “What families need to do is to talk and plan, and create an option for the children. An entrepreneur came to me once totally frustrated. He said, ‘I saved the business for my children. None of them want it.’ I asked why.

“He said: ‘I don’t know. My daughter is a partner in a big law firm, my son is a doctor and another son is a professor.’ They’ve had 25 years in their careers. The father should have said to those children when they were younger, that we have this business, it’s a good financial asset, and it’s important to me. Are you interested?”

Every year, Insead’s Singapore campus hosts a four day workshop for family businesses to talk about issues that are central to enable a family enterprise to thrive. Dr Carlock says the typical intake for each course is six to eight families, with two to three representatives from each family. “We’ll take any family enterprise, provided the issues are

right and the family is committed to working on it ... Our criteria are that the family’s goals fit what we teach and that we have multiple family members. We never turn anyone down for being too small.”

He adds that the course is typically for those with “larger businesses or aspirations”. “If your goal is to have 20 stores and you now have three, and your goal is give the business to your three children, then you have to come to the programme.” Dr Carlock himself used to run his own advanced consumer electronics business while he continued to teach. He was chief executive of a Nasdaq-listed firm when he decided to sell his interest to devote his time to academic work.

He says there is a resurgence of interest among students about getting involved in their family businesses. “One of the things we find in business school is that 20 years ago people wanted to work for a large organisation. But now people want to work for themselves. They want to control their own future, and family businesses are a great platform. Look at some of the entrepreneurs. Their kids have become entrepreneurs as well and have taken the business to a new level. That’s an exciting thing to do.”

One of the school’s case studies is Chinese medicinal group Eu Yan Sang, which has grown to become a global brand.

He says the glue that holds a family together is its legacy and values. “In Asia you live on in your children and in what you create. The power of a family business is its legacy, that we’re not doing this for quarterly results but for the family’s name.”

“Another issue is when the parents start to get to the end of their careers, how do they pass on what they do? The natural instinct is to keep doing it. In Asia, you can retire officially from the business but you’re still the head of the family no matter what happens. That makes retirement an even bigger issue because it’s not clean as in the West.”

He adds: “In the US, a senior retires and is respected as a grandparent, but you don’t have to ask their opinion about the business. In Asia, you may have to ask your grandfather’s opinion forever.”

There could also be a great divide between how the business is run and how the children think it should be run. “For the traditional Asian entrepreneur, his organisation chart is a circle,” says Dr Carlock. “He’s in the middle and everyone else reports to him. But he

sends his children to business schools on the Western model.

“One of the stresses in Asia is how to merge the Asian values with Western thinking about accountability. How many Chinese entrepreneurs will talk about job descriptions? To them, the job is to do everything. On a Western model, you have to have a job description.”

Fairness is yet another awkward issue. “How do we make a business fair? Families aren’t fair. We have something we call fair process that we did a lot of research on. It’s about being transparent, sharing information and giving people a voice.”

He narrates a case taught at his course at Insead. A son who is helping his father with the business believed that his father would leave the business to him. Other siblings were

not in the business. “But when the dad died he left the business equally to the kids. The son felt betrayed. Why should his sisters get the same amount of stock? That’s unfair. But here is what’s hard about it. Did Dad want to have that conversation? No.

“In that case the family business was sold. The son’s incentive wasn’t there. He was just one of the owners.”

But fair process calls for sensitivity. “One of my Indian students told me a great story when we were talking about being fair in family businesses. He said, ‘I really think that’s a great idea. But I have a question. In my family when my grandfather comes into the room, we go down on the floor and kiss his shoes. It’s something we do in our part of India. So do I ask him about being fair before I kiss his shoes or after?’ He made the point.”