

Wealth solutions insights - control and conflict in the family business

Executive summary

After a generation of wealth building in Asia, businesses and assets are gradually being passed down to the second- and third-generation members of families. Where traditionally patriarchs and matriarchs of these families have managed family businesses, potential issues of succession in the ownership and control of these businesses are beginning to arise. Peter Milnes, Managing Director at Rawlinson & Hunter, an international group of professional firms specialising in financial and taxation advice, talks to Hubbis CEO Michael Stanhope about the challenges that families can face when they begin to hand control of their family businesses between generations. Milnes describes the types conflicts that can arise in the process, and what families can do to better handle them.



PETER MILNES
Managing Director at Rawlinson & Hunter

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Now, following a generation of wealth building, and with wealth being passed down to the second and third generations of these families, potential issues of succession in the ownership and control of these businesses are beginning to arise.

Milnes has observed that many of the challenges often revolve around the fact that the patriarch or the matriarch of the family does not necessarily want to relinquish control of the business, “despite having spent significant amounts of money educating the succeeding generations in order for them to have that control when it comes time for them to pass down that responsibility.”

Thus putting the right kind of family governance structure in place - whether in the form of a foundation, or trust, or a letter of wishes - can allow the patriarch to maintain input in

the business. That input can be professionally implemented while making use of the skill sets of the second and third generation members of the family.

“Equally, we also see the second generation being not as interested in the family business as the first generation were, so managing that transition to professional management is important, and can be a challenge for the family,” Milnes adds.

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“But this is where professional services firms can be engaged to effectively manage that transition to professional management.” He reiterates that having trusts and well-structured family governance documents in place can play a critical part in this transition.

Ensuring controls in place

More often than not, Milnes says, it is because of miscommunications or misunderstandings in making sure that controls, such as those that ensure the wishes of the patriarch are followed, that can lead to problems arising. This is because, for the person who initially built the family’s wealth, there is usually an emotional attachment to the business or the assets.

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Culture plays a part

Milnes defines culture as a number of factors, whether it is the culture that has been developed in the family business, or the culture of the country or the region in which the family business has developed.

“Often, in the culture of this region, we see a desire to keep that business within the family, even if the necessary skill set is not within the family, and even if there isn’t any desire in the second generation to still be involved,” he notes.

For families, gaining an understanding of the assistance professional services firms - who are able to understand the culture of the family business as well as that of the region - can provide is an important step in making that smooth transition between generations, and continuing the legacy that has been built by their family.

Conflicts that arise

Milnes says that an area where conflicts often arise is in the direction of the business. There is often also an increase in the use of technology among the younger generations, as well as interest in investing in areas outside the core of the family business.

“Often, a family’s wealth has been very successfully developed in businesses that have been focused in the region, and the second or third generations are often looking to expand that business to different regions. And that can be a cause for conflict as well.”

“There is also often conflict in bringing in professional management if that is what the second generation wants to do,” he continues. Also, “marriages bring external parties into the family, and everyone has ideas on how they want to manage a business, potentially where to invest the business and where to drive the business forward.”

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Dealing with conflict

Again, Milnes says that the best way of dealing with potential conflicts that arise is to have proper family governance structures in place. They would essentially be “a forum to which family members would be able to contribute.”

More often than not, he adds, it is simply by having an external party that is trusted by both sides - who is not involved in the emotional aspects that can build up over time within a family - which can provide a secondary view, and act as a mediator to help family members understand each other’s points of view.