Achieving Successful Preservation and Succession Across Generations

Richard Chow, General Manager of Pacific Trustees Singapore, made a presentation at the Hubbis Malaysian Wealth Management Forum that highlighted how wealth management advisers and trustees can facilitate the often difficult succession of family businesses and wealth.

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Executive summary

Richard Chow of Pacific Trustees Singapore believes the role of experienced trustees is vital in helping facilitate the smooth succession of family wealth and businesses. In Asia, where many large businesses are family-owned and due to be passed on, many of the owner and those businesses are woefully unprepared for the transition. In addition, the structures and nature of family business are such that there are often conflicts and disagreements as well as a misalignment of values. This is where professional trustees can step in to act as mediators, guiding and smoothing the path to a successful transition between the old and the new generations, so essential if the wealth that has been so diligently built up is to be preserved and nurtured.

THE PACIFIC TRUSTEES GROUP International, founded in 1994, has today expanded to become a vibrant trustee group in Malaysia, Labuan and Singapore, offering a full range of trust services to both individuals and corporations.

Chow joined Pacific Trustees in 2012. He has a strong financial analytical background and substantial experience in banking, commercial and industrial labour disputes litigation and commercial arbitration. He also has a legal advisory background in corporate and commercial matters and with this range of skills and experience is well-qualified as a trustee to report upon the need for the many family-owned businesses in Asia to be professionally guided through the process of succession.

Chow began his presentation by explaining just how important relationship managers are to the high net worth family. "They provide that essential human touch," he said. Making an analogy to cogs in a grandfather clock, Chow said without them family businesses would cease to tick.

RICHARD CHOW
Pacific Trustees

Succession planning for the ageing rich

Chow then presented the results of a survey carried out in 2016 by PricewaterhouseCoopers (PwC) that nearly one third of Malaysian family businesses have no proper succession plan in place. "This is worrying because if the next generation does not continue their family business, there is nothing left to manage," cautioned Chow. "It is paramount that the wealth built by the first generation is passed on to the second."

Indeed, with many large family businesses in Asia having only been founded after the end of the Second World War, the need for succession-planning is relatively new. "At this point in time in the Asian landscape, family business owners are both rich, and ageing. This gives the impetus to focus on legacy planning," explained Chow.

Chow highlighted how more than 70% of large listed companies in many countries are controlled by a family shareholder; these include Malaysia, Korea, Thailand and Indonesia and Hong Kong, with the percentages for Singapore, Taiwan and the Philippines between 50% and 60%..

Asia is family-owned

In Asia, businesses tend to be predominantly family owned, unlike in the US and Europe. Chow outlined several factors which can impact upon successful legacy planning for the next generation with which wealth advisers can assist families.

"A major concern for family business is the fragmentation of ownership," Chow explained. "With any title, any asset, whether there are three, five or ten names as signatories, any decision to be made must have everybody agreeing," he continued.

This means that if nine people agree on a transaction, for example, with one not agreeing, the transaction does not go ahead. "This can lead to a lot of hostility within families," said Chow, "so a family office trust acts as the objective middle-man, the referee, and can help overcome these issues."

It is not only money and assets that must be passed on in a family business. "Perhaps even more important than money are the family values," elucidated Chow, "because they are what holds everything together and helps to create the next generation of wealthy families and the continuation of the family traditions."

Succession – a process, not an endpoint

Chow then explained that succession must be considered a process rather than an endpoint. "Families ask when the best time to begin planning their succession should be," he said. "I advise that it is never too early to start, and also that it is better to start later than never begin the process."

When planning a succession for a family business, there are always core components of family, ownership and business that must be considered, and how they combine.

"There will be overlapping areas, such as family members who also own part of the business, but do not work within it, or family members who work in the business and also own a share of it," Chow summarised. This can help to untangle the family and business structures, each of which are always different.

What is a trustee?

Chow closed his presentation by defining the concept of a trustee for the audience. "Trustees are a bridge between old and new, helping to preserve and transfer wealth between generations. Trustees are a fulcrum, balancing diverging interests. Finally, trustees are gatekeepers, protecting and advising the family, and holding funds until family members are of an appropriate age to cope with them." ■