

How to avoid conflict during a family business transition

Succession issues regarding family wealth and especially businesses can raise problems, but families must pass on the baton nonetheless. Britta Pfister of Rothschild Trust explains how to minimise conflicts and other pitfalls as wealth transfers through the generations.

Contrary to earlier predictions that saw family businesses pushed to the margins of the modern economy, family-owned and controlled businesses are thriving and make up over 90% of the world's companies. Especially in Asia, families tend to control large proportions of a particular country's GDP.

The process of transferring assets, amongst others, in family businesses between generations is gathering momentum, particularly in Asia. Here, the door has swung open to professional advisers and vendors of all types as they look to push products and solutions to help these clients increase, protect and preserve both their operating as well as other assets.

However, with this comes a swathe of potential pitfalls for the unprepared. And this is commonplace in the region, given that, in many cases, the first generation still owns and controls the family business, explains Britta Pfister, manag-

ing director and head of wealth planning at Rothschild Trust Asia Pacific.

Succession planning, investing to regenerate wealth, taxation and governance, for example, are among the issues that business-owning families must confront. And each of them is becoming more and more complex, not least because of the fast-changing regulatory and tax environment.

Further, these clients face a growing number of choices and challenges concerning each of them, while still needing to define and maintain a shared vision for the family's future.

With a firm hand on the tiller of responsibility, Pfister believes that Asian business families need to tackle the various challenges they face.

FINDING A BALANCE

According to Pfister, the business and the family both function on very differ-



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ent social contracts. "A family is based on solidarity, unconditional love and unity, while a business obviously works in a different way, with an emphasis

primarily on performance and merit.” Finding a way to address this dichotomy takes time, and trust.

“The organisational difficulties, or challenges, as I see them, are trying to link personal wealth and family wealth, and personal relationships and business relationships,” she explains.

“Very often, I see businesses shaped in the form of a partnership or a company, and there could be some operating businesses held by a holding company.

Under that, there may be real estate that genuinely belongs to the business, which could be land and grounds, but there may also be a residential portfolio generated by the proceeds of that business, which is also held within the business.”

The same can happen with investments and stocks, which are often held within the business, but may have nothing to do with the core business, thus mingling business and private assets.

ROADMAP

The real issue is not whether family members are bothered or not about this situation – but rather how these businesses can be passed smoothly to the next generation, where a successor will take over at some stage, or the family decides not to be involved in that particular line of business and possibly looks at an exit.

This is when the lack of clarity becomes an issue. According to Pfister, the first step, at that point, is to create some order.

“We need to generate some understanding among families about what

ownership, and transitioning of this ownership means, as well as what control and management mechanisms are already in place or need to be created.

Also, we need to know how to transpose all of this to the next generation.”

When it comes to investment policies, in particular, they are only as good as how they work for a family member’s individual circumstances, liquidity requirements and specific investments.

In line with this, business families need to stress-test the policy guidelines using various analytical tools and performing extensive due diligence and research on investments.

PERSONAL TOUCH

Pfister thrives on the dynamics of the individual relationships, as well as bringing all the relevant parties and players into the game.

The ‘family fairness’ element, for example, and how each family defines it, is something that needs to be considered at an early juncture with the family, she explains.

“Ideally, there will be a dialogue with the founder as well as communication with the incoming generation, or it might happen jointly as, at the end of the day, we are all striving for harmony,” she says.

At the same time, the interaction between the people who participate in this discussion is often fraught.

“The first generation founder has a dominant position generally, and will often, and naturally, be reluctant to let

Clear credentials

Pfister is a German-trained barrister with 22 years of trust work under her belt (with Credit Suisse Trust and Rothschild Trust) as well as tax experience (PricewaterhouseCoopers Tax & Legal, CMS Hasche Sigle).

She has a proven track record of developing solutions and setting up structures for global families in the areas of tax and estate planning.

She is a Distinguished Fellow at INSEAD in the area of Family Office, under INSEAD’s Global Private Equity Initiative. She is also a frequent lecturer at international conferences and the author of various articles on tax and estate planning matters and received the award “Leading Individual – Financial Services” in Singapore from WealthBriefing Asia in 2016.

go of the reins of his life’s achievements,” says Pfister. The second generation, on the other hand, may have difficulties identifying and agreeing on who has enough talent to deserve being in pole position when it comes to succession in terms of the business, as well as communicating their concerns as this may appear disrespectful vis-à-vis the often highly revered founder.

“This is where I advise how we may bring the different views and issues together, how to address them and then devise a plan to hopefully deal with the transition in a manner all parties are fully buying into,” she explains. ■