Governance ensures smooth transition between generations

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Global studies have found that transitions in family enterprises from one generation to the next are all too often unfortunate. When a family is unsure how to navigate a discussion over succession, it can lead to business conflicts over strategy and direction, conflicts between siblings, as well as conflicts between family and non-family shareholders.

Each family is unique, but those who successfully navigate these transitions between more than one generation have at least one thing in common: they are well organised.

Many families will successfully transfer wealth from generation one to generation two as much by good fortune as by careful planning. But few families are likely to have the same success on the second and third transfer relying on good fortune alone.

Given the combination of increasingly longer life spans and globalisation in Asia today, it is not uncommon to find three generations in the same family business with different expectations and aspirations.

Grandfather is expecting his 50-year-old son to take over, and that his grandson will follow. While the son may accept this expectation out of filial duty, the third generation, which has often been educated abroad, may question the assumption.

So how do you plan for a successful transition? Is it simply a case of adopting a suitable ownership structure to ensure that the shareholding doesn't become diluted on the founder's death and to prevent minority shareholders being able to stall or delay decisions?

The ownership structure is important when considering a family's development and succession planning, to ensure that the family wealth and ideals are successfully transferred to the next generation.

However, it is also important to address the family's "governance". Governance is more than the legal structures put in place to hold a family's wealth. It is a family's code of practice, a set of rules and systems by which all family members can interact and work together to drive forward the family's vision and philosophy.

Family governance, at heart, is the intersection of family with the family business and the family's asset holding structure.

When a business is first established, the founder, or controlling owners, could be considered the "governance structure", since they are likely to be responsible for most aspects of governance and management of their business.

Formal structures tend to be absent in favour of informality and highly personalised structures. In future generations it may become difficult to replicate this arrangement, and more formal governance is likely to be required.

To successfully govern a family business, involving several generations with different perspectives and expectations, it is crucial to have a formal codified system of governance to provide a unique, articulated vision for the family.

A crucial part of any system of family governance is the family creed or constitution. This is a formal document which sits atop all other aspects of the governance system. It clearly sets out the family's guiding principles and defines the roles of the family business, the family members and any fiduciaries for all family members to follow.

The family creed, or constitution, sets out core family values which all members of the family should follow to ensure that the family identity is not eroded or lost.

In addition, it usually includes a mechanism to introduce younger family members to the family business and its governance structure; a policy for the employment of family members in the family business, and any philanthropic ambitions of the family.

When a family is considering a governance system or structure it is important to realise that it cannot be imposed on the family, rather, it must be developed by the family members themselves.

This will take time, as the family members will need to agree on what their core values are, how they think the family should be governed, and other issues already referred to. It is never clear at the start of such a discussion what the final form of governance will be, but no two families will have the same final document.

An external and neutral facilitator can play a key role in facilitating discussions between family members, and helping the family develop and put a governance structure in place.

A good facilitator will ensure that the process continues to move forward and develop, while allowing the family members time and space in which (often for the first time) to articulate their vision for the family and their beliefs.

This will ensure that any final governance document really does reflect the family's own thoughts. A system of governance will only function properly if it is developed, understood and accepted by all of the family members.

Following the creation of any such system of governance, there should be a forum for the family members to have an ongoing dialogue as to the governance of the family, and to ensure that the guidelines and policies set out in the governing document are followed.

Such a forum should also provide a means of educating the next generation of family members and introducing them to the governance of the family, so that they also understand and accept the family's values and governance system.

With a functioning governance system and an appropriate ownership structure, a family should be well placed to make a smooth transition to the next generation.

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