Welcome to the J.P. Morgan Private Bank Asia Family Enterprise Study.

At J.P. Morgan Private Bank, we are passionate about exploring the issues that matter to the families we serve in order to provide insight and learning that have sustained benefit. This study forms part of a broad scope of thought leadership on a diverse range of topics.

This is an important contribution to what is an extremely important topic to so many of our clients. As the first white paper to focus on ultra high net worth family enterprise specifically in the context of Asia, this is a truly valuable resource.

We would like to thank our clients who entrusted us with their profound insights. The value of qualitative information cannot be emphasized enough, particularly in relation to the topic of family wealth.

Every day we feel privileged to have the opportunity to meet with, and to learn the narratives of, our clients—some of the region’s most successful families. They work hard, are exceptionally creative, and have a vision. That vision invariably has family at its core.

By commissioning this white paper, we share with you some of the knowledge and experience of this remarkable cohort.

I hope you enjoy this landmark and comprehensive study.

Kind regards,

Andrew L. Cohen
Chief Executive Officer
J.P. Morgan Private Bank, Asia
Contents

01 FOREWORD 5
PROFESSOR CHRIS W.H. CHAN, Associate Dean (Asia)
Ivey Business School

DR. MICHAEL Y.K. CHAN, Honorary Chairman
Legacy Academy

DR. AMEN LEE, President
Legacy Academy

GAO HAO (TONY), PH.D.
Director, Family Business Programs
Director, Family Office Research Initiative
Executive Director, China Finance Case Center
PBC School of Finance, Tsinghua University

02 THE SURVEY 9
INTRODUCTION

TRANSITIONING BUSINESS
Adapting to change

DEVELOPING THE RISING GENERATION
Allowing for differences

ESTABLISHING GOOD GOVERNANCE
Identifying best practices

SUCCESION: EAST AND WEST
Tradition and innovation in Asian family enterprise

03 SUCCESION PLANNING: PRINCIPLES AND PRACTICES 40

04 OVERVIEW OF THE PARTICIPATING FAMILIES 44
SPECIAL THANKS TO PROFESSOR DENNIS T. JAFFE, PH.D.

J.P.Morgan
Leadership transition in any organization is a complex and challenging process. When such a process needs to sustain business and family values, the odds of misalignment among business priorities, family legacy and stakeholder expectations can increase dramatically. Classic agency and corporate governance models on the principal/agent relationship and maximization of shareholder value often only address superficial considerations.

In family enterprises, leadership transition usually entails an iterative process where the senior owner/manager generation selects, grooms and transfers the family legacy and business to a rising generation. Multiple members of that rising generation may be included or excluded, or a generation may be bypassed, underscoring a tumultuous process. Even consensus reached at the time of succession may not be sustainable when priorities and aspirations of influential family members change over time, especially in multiple successor scenarios.

As part of our financial-crisis-motivated research, Leadership on Trial, the Ivey Business School faculty is pleased to work with J.P. Morgan to better understand family enterprise leadership succession, with special focus on Asia. Our research echoes a key finding in J.P. Morgan Private Bank’s Asia Family Enterprise Study: While having a succession plan is a good start, executing the plan over a sensible period of time in a fair manner is far from certain. With better access to world-class education, external commercial experience, and counseling from trusted senior family friends or industry titans, future successors are better equipped—and even develop deep commitment to their heritage—by the time they succeed to the family enterprise. Although these are necessary considerations for family enterprises to sustain their future leadership, we believe the key is leadership character. That is—competencies count, commitment is critical, but above all, character matters!

Professor Gerard Seijts, Executive Director of Ivey’s Ian O. Ihnatowycz Institute for Leadership, has written a section for this study that offers substantial and in-depth insight into the value and challenges of character in family enterprise leadership succession. I hope you find his commentary thought-provoking and relevant.
Enterprise succession is tough; family enterprise succession is even tougher. And if it is an Asian family enterprise succession, I can say that it would be the toughest job on earth.

Transgenerational family enterprise seems to be both a dream and a harsh reality. It is a generally accepted truism that family businesses rarely succeed in passing the baton of legacy to the third generation. Nonetheless, most business owners, particularly in Asia, yearn to leave their business as a legacy to their children. Unfortunately, for many, this dream may die due to a lack of forward planning and a lack of understanding of the complexities entailed.

To be able to sustain family enterprise across generations is an art rather than an exact science. It requires striking a balance among family harmony, business prosperity and an individual’s personal aspirations. The Asia Family Enterprise Study undertaken by J.P. Morgan explores the themes of family legacy, especially as they apply to high net worth families, enabling them to pass on wealth and ownership, without sacrificing the intangibles of family values, relationships and knowledge transfer.

We at Legacy Academy are proud to contribute to this project. We hope these valuable insights inform better legacy planning, allowing a family enterprise to sustain not only family roots, but also family values and family dreams.
According to estimates from the Chinese Academy of Social Sciences, a staggering three million enterprises are facing succession challenges in the next five to 10 years. There is also a U.S. study showing that family business failures can be traced to one major factor: the lack of a family business succession plan.

The findings of the Asia Family Enterprise Study conducted by J.P. Morgan Private Bank contribute tremendously to a better understanding about how Asian family enterprises evolve across generations. As such, these insights can also guide more systematic succession solutions affecting both the business itself and the family. They provide guidance on how to select a family business successor and what leadership values may be required. They also highlight the importance of embracing the family’s traditional values while balancing the needs to innovate, change and develop new sources of wealth within the family business. More important, the Study underscores what professional services may enable families to achieve the succession plan they wish while respecting the mission of the founder.

As the President of Legacy Academy, whose mission is to help Asian families manage succession issues in both business and the family, I extend my gratitude to J.P. Morgan Private Bank for its partnership in this project. I look forward to further collaborations that will deepen the understanding of how to facilitate a sustainable legacy across generations.
The notion of family succession has an enduring relevance to families of significant wealth. After decades of economic boom in Asia, the notion is also recognized as pivotal to sustainable economic development in the region.

If we look at China, 67% of the entrepreneurs featured on the 2014 New Fortune Magazine’s 500 Richest List (新财富 500富人榜) are in the 50+ age bracket. This means that in the next 10 to 20 years, their enterprises are very likely to undergo some form of family succession.

These successions do not occur in isolation. Rather, they are part of a long-term process that has considerable challenges. Management and governance rights require transition, shareholding structures often need adaptation, and relationships with family and professional managers must be forged anew. Above all, rising generation leaders must be nurtured to support sustained success and prosperity. Dramatic change presents challenges, be they political, economic, cultural, technological or legal in nature.

Family succession may be broken into six different fields: industrial capital, financial capital, human capital, family capital, social capital and wisdom capital. In charting a succession plan, there is a tendency to separate industrial capital and finance capital. However, passion, skills and the notion of responsibility are the lasting and vital aspects for the future of a sustainable family enterprise. Successful succession requires early and elaborate preparation—and should capitalize on the experiences of other families worldwide, while taking into account the local and personal circumstances of one’s own family.

In this year’s survey, systematic research has been carried out by J.P. Morgan Private Bank on the governance and succession of some of Asia’s most outstanding family businesses. The study offers a concise and insightful perspective that we believe provides an enduring resource.
The Survey
In collaboration with Professor Dennis T. Jaffe, Ph.D.

Sustaining a family enterprise across generations is an increasingly important, but not well understood, issue. There are currently limited resources that focus on how high net worth families transfer ownership across generations while still maintaining family values, traditions and responsibilities.

To address this need, J.P. Morgan Private Bank launched the Asia Family Enterprise Study in 2014. Respectful of the highly confidential and private nature of family wealth, we invited select private clients with successful family enterprises to share their experiences anonymously via a questionnaire, with the expectation that they, in turn, would benefit from the knowledge and perspectives contributed.

Over 140 responses were received—many from larger and multi-generational enterprises. Using these insights, the study aims to deepen the understanding of the evolution of Asian family enterprises across generations, specifically in the areas of rising generations, transition and business practices, and governance. The responses came from family enterprises in multiple jurisdictions, across generations. All these families have holdings in excess of US$100 million, with a family business or shared family assets or family office.

We offer a special thank you to those clients who took the time to participate. We hope that our findings will prove of value to you, and we look forward to future discussions.
Transitioning business: Adapting to change

What major transitions do families anticipate, and are they prepared?

- 91% are keeping the family business
- 9% are selling the family business

- 88% are somewhat or not prepared
- 12% are fully prepared
For the Asian families we surveyed, it is not surprising that only 9% are contemplating selling the legacy business or taking it public in capital markets. The majority—91%—are looking to keep the business in the family, and so will eventually need to face the question of succession.

Succession must address the dual needs of the business and the family. It must support business strategy and innovation. Yet it also must encompass the development of the rising generation of leaders, as well as the satisfaction of individual family members with their assigned roles in the business.

**Facing a transition**

In Asia, families who own businesses are facing a transition. Traditionally, the patriarch and/or matriarch handpicks the family member who will succeed. Today, there is increasing focus on who is most capable and interested in taking a leadership role. There is also greater concern about the rising generation knowing how to work together as a team. In addition, the new generation often holds views, perspectives and even values that differ from senior family members.

As a result, succession has become a longer and more complex process. Survey results show that most families—88%—are either not prepared at all or only somewhat prepared. The good news is that there is still time to plan for the rising generation. More than 70% of families surveyed do not expect succession to occur for at least five years. The next section examines what concerns are preventing families from getting started.
Although there have been a series of high-profile family feuds across Asia over the past decade, from nasty divorces to inheritance disputes, family quarrels and divorce are not primary succession concerns.

For Asian families, senior generations are more worried about the different expectations and needs of future generations, and whether they will be treated fairly. Addressing these challenges can be difficult, which may explain why some Asian families are reluctant to plan for succession.

When there are multiple members in the rising generation, fairness requires definition. Does being fair mean equitable division even if only some of the members are working in the family enterprise? Do those who choose not to work in the family enterprise still have a say in important decisions? As family members increase, and especially when in-laws and spouses are involved, these questions require thoughtful decision making.

What are top concerns and values that will influence transitions?

- 27% are concerned about family disputes and divorces
- 73% express concern about different expectations of rising generations and being fair

Although there have been a series of high-profile family feuds across Asia over the past decade, from nasty divorces to inheritance disputes, family quarrels and divorce are not primary succession concerns.

For Asian families, senior generations are more worried about the different expectations and needs of future generations, and whether they will be treated fairly. Addressing these challenges can be difficult, which may explain why some Asian families are reluctant to plan for succession.

When there are multiple members in the rising generation, fairness requires definition. Does being fair mean equitable division even if only some of the members are working in the family enterprise? Do those who choose not to work in the family enterprise still have a say in important decisions? As family members increase, and especially when in-laws and spouses are involved, these questions require thoughtful decision making.
Our experience at Wise Counsel Research with many complex families validates a simple truth: A family flourishes when the individuals within the family flourish. Flourishing is not primarily about money or power. Most important, each individual within the family must feel that his or her dreams are respected and fostered, rather than being stifled or extinguished by the dreams of the founder or leaders of the family.

Thoughtful family leaders recognize this need for “individuation.” That is why 73% of respondents to this study see the greatest challenge to successful transition as the different expectations of rising generation family members.

The key to meeting this challenge is undertaking a process to identify the dreams of those rising generation members, to acknowledge them, to map out their course, and to discuss, on an ongoing basis, how the dreams of rising generation members will draw strength from and contribute to a shared family dream.

When individuals within the family feel that their dreams are respected and fostered, they are much more likely to contribute to the family’s shared success, often in exactly the innovative ways that family leaders hope for.

KEITH WHITAKER, PH.D., PRESIDENT, WISE COUNSEL RESEARCH
### Top 4 leadership values

<table>
<thead>
<tr>
<th>Ability to lead innovation and change</th>
<th>Clear vision to guide the future of the business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined governance, shared decisions and transparency</td>
<td>Maintaining the family’s traditional values</td>
</tr>
</tbody>
</table>
For Asian families, the top leadership value is the successor’s ability to lead innovation and change. Other prized leadership capabilities include: knowing how to help the family develop a shared vision and how to achieve it; respecting traditional values and the need to preserve them; and honoring the goal of shared decision making. Ensuring that these work together seamlessly is an additional challenge.

From our experience in working with families, innovation and family traditions do not necessarily have to conflict with each other. While families have to be sure culture and family priorities (e.g., involving women or in-laws in the business) do not block their ability to innovate, they also have to be mindful of the complexities involved in keeping the family together.

An often-cited channel for maintaining the family’s traditional values is philanthropy. Not only can philanthropy bring the family together, but it can also engage family members who do not work in the family enterprise and make them stakeholders. A later section examines the important role that philanthropy plays in Asian family enterprises.

CASE STUDY
Helping three generations find common purpose

A family in Indonesia worked with a consultant to bring together the second- and third-generation adult family members to discuss and define both their identity as a family and their views of their wealth. The following questions helped them articulate their values and a commonly held purpose:

- What does our family “honor”? (Our values)
- How are these values reflected in what we do with our assets and our interaction with our communities?
- What was the driving purpose that got us to where we are now? (Our purpose)
- What would be the main points of a journal article written about our family today? What would I like to read about our family in 10 years? 50 years? 100 years?

To help address these concerns, it is important to understand the business and leadership values that guide families during these transitions. In other words, what are the key values that the successor to the family enterprise should possess to lead the family and the family enterprise in the future?
Survey results show that, of families intending to keep the legacy business within the family, more than 80% plan to pass the management reins to other family members. The remainder expect to leave it to a non-family executive. What drives these decisions? And what are the pros and cons of each? If several family members can work in the business, the family faces the challenge of picking the best new leader or leaders in a way that does not upset other candidates. To do so, the succession process needs to be designed so it is fair and equitable, maintaining family harmony amid competition for status and positions. Not surprisingly, we found that more than 60% of the families surveyed have yet to pick their successor(s).
**Leadership models**

<table>
<thead>
<tr>
<th>LEADERSHIP STRUCTURE</th>
<th>WHY SELECT?</th>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
</table>
| SINGLE FAMILY LEADER | Traditional model of a single strong leader among the rising generation | • Maintains family values  
• Unifies family  
• The best and most capable candidate is chosen | • Prone to disputes and may create disharmony if the selection process is not fair and transparent  
• Other family talent is diminished |
| MULTIPLE FAMILY LEADERS | Some family enterprises require different leaders to oversee multiple businesses | • Maintains family values  
• Shared decisions maintain family harmony | • Need to coordinate decisions and avoid splitting the business  
• Must reach decisions by consensus  
• Model should be sustainable through future generations |
| NON-FAMILY EXECUTIVE | Lack of strong family candidates who are willing and equipped | • Independent management of legacy business | • Requires oversight by a board of family members  
• Family may lose interest in business  
• Difficult, if at all possible, to maintain family values |

Unlike a public company, the family must not only choose the best successor, but also must engage the talents of all family members who may be interested in working in the family enterprise. This may include shared leadership roles or the creation of several business opportunities.

Even if an individual is not selected as the primary successor, other heirs within the family enterprise will have to develop the important leadership skills—succession is not a winner-take-all outcome. How some Asian families develop talents among the rising generation is explored in the next section.
Developing the rising generation: Allowing for differences

How does the family develop talent for the family enterprise in the rising generation?

Traditionally, the senior generation in Asia has assumed that only one or two members of the rising generation will succeed them in the family enterprise. However, our research shows that those in the second or third generation expect twice as many family members to be candidates. Despite this trend, it is important to keep in mind that not every member of the rising generation is necessarily suited to work in the business. In addition, it may be that a younger member is more qualified and interested in a leadership role than someone older.

Further complicating transition issues are the new assumptions of the rising generation. For example, many want to understand the potential roles they might play and how to seek employment in the family enterprise—they want to decide whether or not they will be candidates for succession. Employment considerations may include: when entry is expected; how long they can or should work outside the family business; and reassurance that the succession process will be fair and predictable, so they can plan their lives with the business.

Defining expectations

To manage these expectations fairly, family business owners in Asia must shift from what has been an ad hoc system of bringing the rising generation into the business to a clear and explicit statement of expectations and qualifications: a family employment policy. Through such a policy, families can clearly define what qualifications are needed to enter the family business, when they can enter, and how they can develop their capabilities to move into leadership positions. The policy can also define expectations around advancement, compensation and leadership selection that are clear and fair, and help to minimize negative competition and rivalry. Only 25% of the families in our survey reported having such a policy in place.
An employment policy can establish the requirements that family business owners deem important for rising-generation candidates, such as minimal expectations for employment, often a professional degree and outside work experience. Having a policy in place can help families avoid or at least minimize contention around these important issues.

Our survey found that family business owners vary as to how much they encourage family members to develop—whether outside or within the family business. From the families we surveyed, many value outside experience, since this offers family members an opportunity to see different types of businesses and to learn the business practices of larger and diversified businesses.

By working at a distant or larger business, potential successors gain greater perspective on the challenges the family business is facing, and its opportunities to grow and develop. Outside experience also allows prospective leaders to develop their skills and build a track record of success, so that when they enter the family business they have expertise and a record of achievement to do their jobs well.

**How do families nurture talent?**

38% have no formal program for the rising generation

36% encourage outside work experience

26% have a defined rotation program in place

**CASE STUDY**

Providing structure and support

A family in Singapore that has established a family office insists that each young member intern there for a summer. This experience gives the rising generation an understanding of what is involved in the family’s wealth management, as well as in operating the business.

Among the skills learned from this experience are:

- Responsibilities for ownership and governance
- Financial skills and reporting
- Effective communication and teamwork
- How to set criteria and conduct a search for outside professionals, whether employees for the family office, executives, investment managers or tax and legal experts

The family also created a “junior board” of family members to oversee new family ventures and to provide opportunities for leadership and development. This group will eventually transition onto the board of the larger family ventures.

The family also assigned a mentor—an outside director on its board—to each younger family member with a career in the business.
What are the three most important qualities to develop in a successor?

**Passion for the family enterprise**
Families in our study value the passing on of their history and traditions, and the fostering of a shared appreciation of their family’s roots. The founder’s values and vision also take center stage, and guide discussions about the future.

**Personal strengths: knowledge and experience**
The successful families we surveyed understand that each family member—especially those who will eventually lead—must be highly self-confident. They make sure that potential successors pursue an education, develop a profession, and acquire the interpersonal skills essential to function effectively within the family enterprise.

**Leadership skills**
Our study showed that families recognize the diverse leadership qualities needed to guide a large and complex family enterprise forward. For example, to resolve conflict and differences, and to support troubled or struggling family members, the successor leader needs to be able to win the support of other family members. This skill is distinct from the qualities needed to lead employees or to inspire change and innovation. To develop these leadership skills, families should have policies and structures in place that allow them to develop their leaders and enable emerging leaders to begin assuming larger roles. The families in our study defined the clear challenges they face regarding successor selection and success for the rising generation. However, for their desires to be fulfilled, they need policies and governance practices to anticipate and manage the generational shift. While we see a gap between what Asian families want and what they are doing to achieve the desired result, we are optimistic that families are aware of the need to demonstrate greater commitment to future generations.
Succession planning is always difficult. But family-run businesses face a unique challenge because company founders often simply expect to hand down the leadership position to one of their children without really considering whether or not it makes sense. Meanwhile, children born into family empires often see the corner office as a birthright. These are natural instincts. But when succession is predetermined by bloodlines, success or failure is placed into the hands of Lady Luck.

The numbers vary from study to study. But it is generally accepted that far too many family-run businesses fail as a result of poor succession planning, or the lack of it. Indeed, as a 2012 Harvard Business Review article noted, the evidence supports the aphorism “Shirtsleeves to shirtsleeves in three generations,” which describes the propensity of family-owned enterprises to fail before a founder’s grandchildren even have a chance to take charge.

The market is clearly aware of the potential downside. In April 2000, for example, about 14% of shareholder value in Australia’s News Corp. disappeared when investors learned that Rupert Murdoch was being treated for prostate cancer. According to the Australian Financial Review, “investors were clearly spooked that the old man might pass the baton” to his son Lachlan. Right or wrong, the market didn’t see the younger Murdoch as a safe leadership bet. Why?

An article in Canadian Business noted that creating wealth from scratch can produce a leadership “paradox” for family firms because the children of successful company founders often develop different personalities, skills, work ethics, confidence levels and interests from their parents. And with different interests, not to mention the high levels of confidence that often come from growing up wealthy, hereditary CEOs often can’t help running the family firm the way many children drive the family car the first time they get a chance to burn rubber—fast and carelessly.

Whatever the reason for failure, the issue is of particular importance to Asian economies, where a wave of family-run businesses that represent a significant proportion of regional GDP must soon select new leadership to replace aging founders. Reports of bitter disputes already dominate media coverage of the issue. Feuds can be avoided by doing succession planning the right way. But that requires everyone involved in a family enterprise to accept the fact that leadership is not a birthright.

Leadership is a privilege that comes with a wide range of responsibilities, which extend far beyond family ties.

Simply put, leadership is a privilege that comes with a wide range of responsibilities, which extend far beyond family ties. Employees and suppliers are just two examples of the other stakeholders with skin in the game. That
said, there is nothing inherently wrong with companies hoping to keep management in the family, providing they are open to alternatives while attempting to develop internal executive talent. But more than a third of family-run Asian companies that took part in the J.P. Morgan Private Bank’s Asia Family Enterprise Survey indicated they are not developing talent in any formal way. This is surprising since the majority of respondents want to keep family members in charge. The survey also revealed that companies will consider outside management if they cannot find someone in the rising generation who is ready to run the family enterprise.

The key to any succession-planning process, of course, is understanding that selecting someone to take over the helm of any organization isn’t just about knowledge, talent and experience. When assessing leaders or potential leaders at any level in an organization, it is critical to ask three questions:

1. Do they have the competencies, knowledge and relationships required to be an effective leader?

2. Do they have the commitment required to do the hard work of leadership and engage with others to achieve the organization’s vision and deliver on its goals?

3. And last but not least, do they have the character to be a good leader and to strive to be an even better one?

**Defining character**

Character has often been described as the difference-maker in business, sports and life. But the business world has somehow lost sight of this. For example, it is very rare to find leader character on the list of top succession focus areas. The J.P. Morgan survey reported that Asian family businesses see passion, knowledge, experience and leadership skills as the most important focus areas. Competencies have been well addressed. Reasons for the absence of leader character are unclear. Perhaps it is because discussing character is difficult since it seems such a subjective construct. Whatever the case, leadership character matters—a lot.

At the Ivey Business School in London, Ontario, Canada, we assess leader effectiveness on the basis of competencies, character and commitment. When any are deficient, the shortfall will undo the strengths of the other pillars and ultimately lead to problems for leaders, organizations and related stakeholders. The best example of this was the 2008 financial crisis. If anything, there was a surplus of competencies and commitment among bankers in the years leading up to the crisis. But shortcomings of character still caused the global financial system to nearly crash.

**Children of successful company founders often develop different personalities, skills, work ethics, confidence levels and interests from their parents**

Our research into the financial crisis and subsequent conversations with hundreds of executives from the private, public and not-for-profit sectors led to the identification of 11 interrelated dimensions of leader character: Accountability, Collaboration, Courage, Drive, Humanity, Humility, Integrity, Judgment, Justice, Temperance and Transcendence. The dimensions work separately and together to influence action.

For example, individuals who have courage in excess may act recklessly unless they also have access to the character dimension of
temperance. Without humility, decision making can become arrogant. Drive without integrity can lead to self-serving goals. Courage is essential for integrity because being candid can be very challenging. And so forth. We believe character is developed over one’s lifetime, and leaders can enhance the development of character through deliberate practice and reflection on experience.

The experience of two prominent graduates from the Ivey Business School shows how the development of leader character plays a significant role in the success or failure of transferring control of family-run businesses to blood relatives.

Linda Hasenfratz, CEO of Linamar, a US$3.6 billion, listed auto-parts company with 18,000 employees and 44 manufacturing plants around the world, had significant experience when she took the helm of the company in 2002, four decades after it was founded by her father, Frank, as a one-man basement machine shop. Hasenfratz embarked on an extensive training program to gain familiarity with all aspects of the business after joining the company in 1990. Prior to being named president in 1999, Hasenfratz—who completed an Ivey Executive M.B.A. in 1997—held numerous positions, ranging from shop-floor machine operator to general manager of entire manufacturing divisions. “Having had tangible experiences in virtually every area of the company was invaluable to me in being able to take on increasingly larger responsibilities,” she noted when interviewed for my recently published book, *Good Leaders Learn: Lessons from Lifetimes of Leadership*.

There is no question that the skills and experience Hasenfratz gained at work and during her M.B.A. program have helped her lead the company through significant change and contributed to the US$2 billion sales increase that occurred after she assumed corporate level responsibilities. But it was her leader character that made the difference during the transfer of power. Indeed, despite her training and education, the succession plan that eventually placed her in command was initially seriously questioned by many members of management.

“I made a lot of transitions, both in terms of jobs and plants,” she says. “Every time I encountered a new group of people, I knew some were thinking, she isn’t smart or she won’t want to work hard. I knew some were thinking, if that isn’t bad enough, she is a woman, too! That was difficult to deal with because I had to prove over and over again that I was going to work hard, I was going to be here until the job got done, and I wasn’t sailing out the door at four or five o’clock.”

Hasenfratz spent seemingly endless hours at relationship building to foster mutual respect and gain credibility. It was often frustrating, but she saw it as time well spent because she was humble and mature enough to understand that respect and trust can’t be handed down—they must be earned.

“Building trust is a two-way street,” she says, adding that trustworthiness is rooted in how you treat people. “You need to be trustworthy for people to feel they can rely on you. They need to know they can follow your lead. People need to know you’re leading them in a direction that makes sense.”

From the start, Hasenfratz was also open to learning how to be a better leader. “My style has evolved in at least two ways,” she says. First, she learned to delegate enough to be able “to operate at 40,000 feet,” but still “go down to two feet” if necessary. Second, she learned to be more team-oriented and less autocratic. “I learned that I don’t always have the best answer. Hence I’ve learned over the years to listen more, to table an idea, to get some feedback and then make the decision. I’m not looking for
DEVELOPING THE RISING GENERATION: ALLOWING FOR DIFFERENCES

consensus. I’m looking for input and feedback and buy-in. You don’t achieve a lot if you don’t have people’s buy-in.”

According to Hasenfratz, being afraid to hire somebody smarter is a fatal flaw. Her advice to future leaders is to recognize that a diversity of opinions is important. “The sooner you learn to listen more, talk less and get people engaged, the better your decisions tend to be and the quicker you’ll be successful. Of course, having a strong team around you is also critical. My advice is to hire the best people you can find because the smarter and more capable your team is, the better you look.”

Collaborative leadership is really no longer an option

Michael McCain has a different story. As president and CEO of Maple Leaf Foods, he runs a multibillion-dollar food processor and exporter with approximately 24,000 employees at operations in Canada, the United States, the United Kingdom and Asia. He gained international recognition for good leadership character in 2008, when deadly bacteria found its way into the company’s meat products and killed 23 people. As Canada’s Globe and Mail newspaper reported, “Had the crisis been handled badly, it might well have killed the company itself. Instead, Mr. McCain was lauded for his response to it: Almost immediately, he went on television, looked straight into the camera, and apologized. For PR professionals, the episode has become a case study in crisis management.”

Simply put, Maple Leaf took a financial hit, but survived with consumer trust intact. And McCain, who regrets not knowing more about food safety before the crisis, only accomplished that remarkable feat because humility is part of his leadership character. As he told the Globe and Mail, “You show me a leader that can’t look and say, ‘Boy, I made mistakes and wish I would have done that differently.’ If you can’t [admit that], you’re a very dubious leader of anything, at any time, in any circumstance.”

But McCain learned the importance of leader character the hard way. In 1979, after graduating from the undergraduate program at the Ivey Business School, he joined the sales department of McCain Foods, a private frozen-food empire founded by his father and uncle, Wallace and Harrison McCain. Working his way up the ladder for more than a decade, he was appointed president and CEO of McCain Foods USA Incorporated in 1990. Shortly after, however, a heated dispute between the company’s two founders over succession led McCain to depart the management ranks along with his father. “Our family experienced a seismic event in a very public way,” McCain noted when interviewed for Good Leaders Learn. “As you know, family and business often collide and, in the early 1990s, it exploded in a public setting.”

According to McCain, he was a key protagonist in his family’s succession battle, and he is not proud of his behavior. “One curse of youth is that sometimes you don’t necessarily value the emotional intelligence of leadership. This dimension of leadership evolves over time. I probably didn’t value emotional intelligence as much as I should have or put as much effort as I should have into understanding the importance of relationships in both family and business. But, in the end, you consider the failure and then you learn from it.”

McCain says that part of being a young executive is having what he calls “extraordinary confidence in your intellectual capacity and business-related skills.” The problem with this is that emotional intelligence, and all its layers, is infinitely more valuable to a leadership
journey. “And I do not believe these layers can be taught. They’re like wine that needs to age—they mature with successes and failures, your personal and business interactions, mentoring, and so forth. All of the very intricate components of that emotional intelligence layer in your leadership develop over a period of time and at various paces according to your experiences. That’s the secret sauce of leadership.” Young leaders, he adds, need to recognize leadership really isn’t about being the guy or gal who makes tough calls. “The essence of leadership is to gain followership. It is to impact people in a way so they follow the leader in a willing, constructive, enthusiastic, compassionate and collaborative way.”

Overconfidence isn’t just a North American issue. When interviewed for Good Leaders Learn, Gautam Thapar, founder and chairman of India’s Avantha Group, noted that hubris is a leading cause of career derailment around the world. “If you start believing that you are God’s gift to management and that you know everything there is to know—sorry, you don’t.” Thapar thinks humility is so important that he supports firing any business leader who writes a management book while still in office. “An organization is not static,” he says. “It’s a dynamic living thing. No leader can believe he or she knows everything there is to know about the job today, tomorrow and the day after.”

**Hierarchical thinking has become a barrier to achieving results**

Remaining humble, of course, isn’t easy. “You almost expect to be treated a certain way,” says Kiran Mazumdar-Shaw, founding chair of India’s Biocon. “And when you’re not treated a certain way, you get uppity. That’s not a good trait.” To stay grounded, she relies on her husband. “He always reminds me of a very important saying: People that mind, don’t matter, and people that matter, don’t mind.” Relying on others is how Mazumdar-Shaw leads. “There are leaders who want to command and control. The other kind of leader focuses on collaboration and empowering people. I like to do the latter.”

According to the J.P. Morgan survey, many Asian family firms are still command and control organizations. When planning succession, they need to understand collaborative leadership is really no longer an option. Indeed, thanks to the complexities of the modern world, hierarchical thinking has become a barrier to achieving results. As a result, character is now more important than ever when it comes to leading an organization or picking someone to take over the corporate helm.
In the first and often the second generation of a family enterprise, there are so few owners that they can all serve on the board. But as ownership is transferred to the rising generation and the number of owners grows, the business needs a small group of dedicated, skilled people to oversee its development. Since not all of the owners are suitable for the board, it can evolve to a combination of owners, independent non-family members and non-family executives from the business.

Establishing good governance: Identifying best practices

What are the board compositions of transitioning family businesses?

Board size is usually small

- Four to six members: 49.6%
- One to three members: 19.2%
- Seven to nine members: 28.8%
- More than 10 members: 2.4%
The average size of a board is small, usually about five people. The majority of boards have representatives from two generations, as board succession is a key element of a generational transition strategy. The boards of our surveyed families do have non-family members, though usually they are key executives from inside the business rather than independent directors.

- **Half include non-family directors**
  - 50.4%

- **Board only consists of family members**
  - 40.0%

- **Non-family member who does not manage the family enterprise**
  - 9.6%
How do family enterprises discuss concerns, make decisions and resolve conflict?

Most decisions are made by select leaders

In Asian family enterprises, there may be a higher tendency for family leaders to make significant decisions unilaterally without consulting other family members. In our survey, respondents noted that issues are managed by family leaders, and meetings are only called if needed. Even when families gather and share ideas in advance of decision making, surveyed families observed that most decisions are still made by select leaders. Others indicated there is no venue for discussing concerns, values or family activities.

- 78% do not have mechanisms to discuss concerns
- 22% have formal and regular family councils
ESTABLISHING GOOD GOVERNANCE: IDENTIFYING BEST PRACTICES

80% of families resolve conflicts through decisions by family leaders

This kind of top-down decision making can lead to a number of problems in family enterprises, including:

- Erosion of trust between the leader and the family
- Unwanted disputes or conflicts that derail the family's vision
- Poor communication between family members
- Failure to understand the thinking behind decisions

There is a global trend among family enterprises in the second or third generation to set up mechanisms for meeting regularly and discussing concerns. Some Asian family enterprises are beginning to institute these practices. These regular meetings, sometimes called family councils, are not the same as meetings of the board of directors. The family council focuses on the family's relationship to the business—for example, how members are prepared for ownership and management—and takes responsibility for family meetings, retreats and philanthropic activities, among other initiatives. The family council may also define how the values of the family relate to the business, and may actively work toward keeping family members connected, even as relationships span countries and borders.

For more details on this topic, see the article at the end of this section.
For many Asian family enterprises, it is not uncommon for the senior generation to view the rising generation as unqualified or not ready to govern. Similarly, the rising generation may believe the senior generation will never relinquish their leadership positions.

To manage governance issues, resolve conflicts and plan for the future, many families seek out an external advisor with expertise in these areas, or rely on a long-time trusted advisor. The advisor can act as a buffer, mentor and neutral party, helping to navigate discussions on such potentially contentious topics as investments, ownership and inheritance.

Even with external advisors in place, the senior generation needs to continue to engage upcoming generations in strategic planning and discussions. By providing guidelines and procedures, external advisors help families develop and sustain effective strategic plans while keeping responsibility and controls within the family enterprise.

**What are the top reasons a family enterprise should consider external advisors?**

**TOP REASONS TO SEEK AN EXTERNAL ADVISOR**

1. **PROVIDE** guidelines and procedures for governance
2. **RESOLVE** conflicts and buffer delicate discussions
3. **POSITION** for the future
As ownership extends beyond the first generation, situations may arise where an individual family member decides not to pursue a role in the business and/or seeks to liquidate his or her share. A member of the rising generation may want access to liquidity for other reasons as well—to fund a private entrepreneurial venture, for example, or to pursue philanthropic interests.

Some families spend tremendous energy dealing with these issues—a potential drain of valuable time and focus. While successful families avoid or greatly minimize this disruption by having exit options in place, only half of the families we surveyed had some sort of exit plan. Of these, most were limited to family members and were not available to ownership outside of the family.

As family members increase, Asian family enterprises may be more likely to create less restrictive share-selling options. At the same time, there may also be a desire to limit the number of family owners to those who truly share a passion for sustaining the business.
What best practices help maintain long-term harmony among family members?

Family foundations important to 76% of families

As families work to make sure their values and vision are sustained through future generations, philanthropy often comes to play a role—as an expression of the family’s mission and heritage, as well as a mechanism to maintain family unity.

In our experience, philanthropy is especially important to members of the rising generation, which often has a personal commitment to ideals of sustainability, social responsibility and community service. They may be keen to ensure that the family, while successful, is also viewed as responsible and caring within the community. Some also see in family philanthropy a pathway for their own careers, life focus and identities beyond the family business. Service on a family foundation, for example, can offer leadership opportunities for potential successors, as well as leadership positions for family members who are not in the business.

To formalize their philanthropic efforts, some families create a structured family foundation with a mission statement, professional staff and robust grant evaluation process. Oversight of all philanthropic activities may be maintained by the family. Many families in our study have already created, or are interested in creating, a formal family foundation.
Asian wealth creators believe that, within their family, things are “understood,” everyone knows their place, and succession is clear. By contrast, members of the rising generation feel that things are getting more complicated: They see that not everyone in the family is in agreement, and some are not sure what is expected of them. Some families have to figure out whether leadership in the rising generation is going to be based on birth order and family hierarchy, or solely on merit, or if there is a way to do both.

Families like stability, and they tend to resist change. Yet Asian families face having to adapt, to evolve, and to integrate a new generation and new ways of doing things that support transition and change. Communication among family members is key to this transformation. The family meeting is the ideal vehicle for Asian families to step back and think about the big picture of where they are going and to explore options for their shared future together.

While each family is unique and will have its own priorities, transition issues and agenda, the following provides a framework for thinking about and setting up an effective family meeting.

**Who do you include in a family meeting?**

There is no “one size fits all” answer to this question. The question of who to involve is a question about the process of holding a family meeting, not a question of content. Within an Asian family, the core members will typically be the parents and all of their adult children, whether they are involved in management roles or not. This core group can determine who should be included.

Should spouses be invited? What would be the pros and cons of doing that? What are the options? Some families do include spouses for the whole meeting, while others might invite them just for a meal that follows. A compromise is to include spouses selectively. Some families start off holding family meetings without inviting spouses but make sure to hold at least one annual “family assembly” meeting that includes them.

Do you include teenagers or children? Again, the core family members should decide, but the answer may depend upon the purpose of the meeting. If it has an educational objective (e.g., to explain the family policies or the family holding structure), then some Asian families would include teenage children while taking care to stress the importance of keeping family affairs confidential.
One very helpful practice for Asian families is to consider inviting “family elders” to their meetings on a regular basis. A family elder refers to an individual who is deeply trusted and respected by the current generation, yet who is not necessarily a family member. He or she could be a trusted non-family CEO or an uncle or aunt. Being old is not a qualification for being a family elder, but being wise is. An elder is also someone who understands the perspective of the rising generation and who can help to bridge the communication gap between generations. An elder will remind the family to reflect on the bigger picture and on the transitions the family is facing.

Another important consideration, paradoxically for an Asian family, is whether to include the family patriarch or matriarch in the family meeting. The first generation wealth creator is used to being the sole decision maker and to controlling communication. Families are often hierarchical; in some families, if the patriarch is in the room, then communication becomes restricted. On the other hand, family wealth in Asia is often divided in such a way that the rising generation may be equal stakeholders in the ownership of that wealth (though they may not have equal ownership interests). It is very important for the sibling group to be able to learn the skills of working together collaboratively, in which case, a family meeting might only include them. Another alternative is to have the siblings meet together in the morning and for the patriarch to join in the afternoon.

**What do we mean by a family meeting?**

A family meeting is a meeting of family members who jointly own family wealth together or who will do so after a transition currently in progress. It could be a business-owning family, a family that jointly owns financial capital, or a family united around a philanthropic or charitable legacy.

There are some gatherings that do not qualify as family meetings. When a family gets together for Sunday lunch or dinner, it is not a family meeting even if their conversation is about the business. A board meeting, a management meeting and a shareholders meeting are not family meetings. To suggest that a family hold regular family meetings does not imply that the family should run its business affairs on a “one person—one vote” system. Often, family meetings are not intended to be decision-making meetings—they are about information sharing.

Nevertheless, some family meetings might focus on discussing and organizing the “business of the family.” These will be more task-focused meetings. For example, they might revolve around a review of investment performance, a report on the family foundation activities, a discussion of asset protection planning for the family or an educational topic.

**Being old is not a qualification for being a family elder, but being wise is**

Other family meetings may focus on creating a safe environment for communication within the family at a time when it is facing or preparing for a transition. In this situation, the goal is to create an atmosphere in which each person has an equal voice, where family members can listen to each other with empathy and respect, where individuals are allowed to have time to think as they talk, and where important but perhaps difficult issues can be discussed. Some families will rely on a family elder or an outside neutral party to help facilitate such conversations, so that all family members can focus on their own participation in the meeting.
Where do you hold a family meeting?

Many families like to hold meetings in their homes or offices. This might be suitable if the focus of the discussion is ongoing work on the “business of the family.” On the other hand, if the focus of the meeting is to create a safe family communication forum at a time of transition, then it is better to find a neutral venue, with no distractions, such as a private room at a hotel or club.

The physical environment and layout of the room are important. Try to avoid board room tables. It is better to have an open arrangement where chairs can be placed in a semicircle facing a flip chart. Find a location that is comfortable, where people feel like they matter.

Some families like to organize a meeting around a vacation so they can have the meeting in the morning and then play golf together or go to the beach in the afternoon. Planning time for fun and relaxation is an important part of a successful family meeting.

When should you hold a family meeting?

The answer to “when” is driven by the nature and purpose of the discussion. If it is a meeting to work on the ongoing “business of the family,” then it is common for families to commit to meet at least once a quarter. If a family is in the process of actively exploring a transition together, it might meet every two to three months over a two-year period. If a family is in a period of stability, it might aim to meet once or twice a year. In this case, the focus may be on educating the rising generation or those family members who are owners but not managers. Topics for discussion might include the performance and direction of the enterprise or essential interpersonal skills, such as how to have difficult conversations.

Families are not corporations; they are emotional systems

Often the question is raised: “What if someone cannot, or will not, attend?” As a rule of thumb, it is not helpful to try to force family members to attend if they do not want to. On the other hand, it is also not fair if one family member can effectively veto a planned meeting by refusing to attend. This is a process question. Ideally, this issue will be resolved during the planning phase of a family meeting so that everyone knows, in advance, how this scenario will be handled.

There is also the question of “when do you start” to hold a family meeting in the life of the family? If members of the rising generation are all adults, and the family is starting to think about how it will work together once the current generation retires, it is likely time to plan a family meeting. On the other hand, if the members of the rising generation are still in the teenage years, a meeting might be a forum to start to educate them in an age-appropriate way on such topics as the terms of the family trust structures or the family employment policy. Certainly, this type of educational meeting should be considered by the time the members of the rising generation are at university.

How do you do it?

One or more members of the family should be responsible for planning and organizing the family meeting. Ideally, this will be a member of the rising, not current, generation. A good way to structure a meeting is to ensure there is a
good balance between spending time working on some “task issue” together (e.g., agreeing on the terms of a family policy) with spending time exploring family relationships, developing new skills and also having fun together.

For example, one family kicked off a series of family meetings with an engaging exercise using value cards to explore both individual values and shared family values.

Families are bonded together by the stories they tell. An incredibly powerful exercise for members can be to take some time to share a story about the family that they remember from childhood. These don’t have to be stories about the wealth creator. One simple exercise is to ask family members to recall a story told to them by the oldest person of the family that they knew.

It is not always easy to think about the future, and it is sometimes not easy to share your thinking with a room full of your family members. If there are specific issues to be aired at a meeting, it can be very effective to survey everyone in advance using an online survey tool. This can then produce a “no names” consolidated report of results and comments, which can then be discussed at the meeting.

**Why should Asian families hold family meetings?**

First, in many Asian families, there is often a communication gap between the generations. However, since communication is vital to successful transition and change for enterprising families, the family meeting can be the vehicle to help bridge the communication gap, even if only for the duration of the meeting. It is part of the role of the facilitator or the family elders to structure the meeting in such a way as to bring the generations together.

Second, ownership in Asian families is often divided so that each member of the rising generation has an equal stake in the family enterprise. Over the long run, family ownership is more important to continued success than family management. Collaboration among family stakeholders is critical; the family meeting can serve as a way to both develop collaborative skills and to explore how the family will work together cooperatively in the future.

**Emotional commitment is like family glue, and it cannot be taken for granted**

Third, successful Asian families also cultivate an emotional commitment, especially in family members who are in an ownership, but not management, role. Emotional commitment is like family glue, and it cannot be taken for granted. When it is present, family member stakeholders are happy to remain united and support those who are in management or leadership roles. Emotional commitment comes from giving all family stakeholders a voice and also from promoting family participation, both of which can be achieved through holding family meetings.

Finally, harmony is important to Asian families. Working together in the management of a business inevitably creates differences and strains in relationships from time to time. When some family members are in ownership roles and some in management or leadership roles, the two groups can be in conflict simply because of their different positions, especially once the wealth creator has died. A family meeting held in a safe environment provides an important opportunity to periodically mend the tears and strains in a relationship that naturally arise from working together.
Succession: East and West
Tradition and innovation in Asian family enterprise

While Asian global family enterprises have much in common with those of other countries, the cultures of China and other Asian countries have a heritage of Confucian values that sets them apart. These values—tradition, continuity, order and harmony—can create a family legacy that can be difficult to change.

In contrast, non-Asian families tend to stress individualism and self-determination. Unlike their Asian counterparts, Western family elders may expect the rising generation to find its own way instead of remaining within the business. They are less concerned with tradition and family connection, and more interested in each family member’s personal development. They may be more attuned to the need for change and more willing to let go of the past to allow the family and business to adapt and change. These differences—about what they expect and want from the rising generation—lead to divergent views of succession.

Tradition and innovation in Asian family business

While there are strengths in each perspective, a family enterprise that wants to succeed must also adapt and change. During the past two decades, Asian family businesses have risen in value, participating in the global marketplace as manufacturers and as consumers. More and more Asian families market their products globally. Several have become global brands. As they grow, businesses run on traditional values and principles must adapt to global business practices, which may be new to them. Often, the family business founder has not been educated outside of Asia, and is not schooled in new business practices. But pride and tradition dictate that the elder is in charge and viewed as wise and benevolent, which can make it difficult to learn new ways.

The emerging millennial generation in Asia frequently has a different perspective. More often than their parents, they have been raised with family wealth, are well educated, and often gain work experience abroad. Having lived in the East and the West, they feel that they are bicultural. While they respect their parents’ values and traditions, and appreciate the opportunities their families bring them, their points-of-view on challenges, opportunities and the need to adapt may differ from that of their parents. The complexity of succession lies in finding a positive way to negotiate these differences while maintaining family connection and harmony, and respecting the prerogatives of the elder generation.

The founding generation

Family enterprise in Southeast Asia seldom extends beyond the third generation. In mainland China, family businesses have an even shorter history. Far more than in the West, in Asia the business founder is often very much alive, and while aging, usually still controls the family enterprise. Facing an imminent generation shift, Asia can learn from the best practices of successful multi-generational families, but this must be balanced with an understanding of the special values and traditions of Asian families.

Asian family business founders have certain common characteristics. Like their Western counterparts, they are entrepreneurs who have lived and breathed their family enterprise for their lifetimes, and are now due recognition for
their success. Often, they come from humble roots, with little formal education, having learned the ways of business through experience. They did not expect to become wealthy, and though wise and experienced, they often do not have the professional skills and knowledge to lead the business into the rising generation.

In Asia, passing the business to the rising generation is often governed by Confucian values, which have traveled to other countries through Chinese migration. These values include:

- Desire to maintain family harmony
- High involvement in the lives and life choices of children and family
- Respect for family status and hierarchy (the eldest children first)
- Communication style in which things are kept ambiguous
- Deep desire for family privacy

By tradition, inheritance is given equally. Often, each child receives his or her own business, and the family business is divided to maintain family harmony. The family does not talk directly about the future, and does not share business information. Respect for one’s elders means trusting them to do the right thing, and not questioning or complaining. The family often lives in a bubble, not talking much with other families or sharing information outside the family. Working in the family business is often viewed by the elder as an obligation, not a choice.

The rising generation

Although they grew up with these traditions, the siblings or cousins of the rising generation have very different life experiences than their parents: They were raised in wealthier households and communities; they are highly educated and exposed to different ideas and cultures. In addition, their values include open discussion, transparency, more direct communication, and being open to new ideas. They want to contribute to the family, by bringing in new ideas, innovating and taking the family business in new directions, but they also want to respect their elders. With their different cultural experience, many rising generation family members feel as if they belong to two cultures: a global business and digital culture, and their traditional family. They want to balance the two cultures, not reject one or the other.

The rising generation faces the challenge of respecting tradition and their elders, and making sure the business continues to succeed in a global, digital, multicultural business environment. Some elders clearly understand this, while others are more committed to sustaining traditional ways. The rising generation cannot remain silent in the face of family traditions that discourage dialogue, transparency and innovation.

They are concerned that the family business may not be modernized, and they want to take advantage of opportunities to grow. They respect what the earlier generations have achieved, but they want to make their own contributions, and they are aware that their generation has developed special skills. They are less sentimental, and would be comfortable suggesting that a legacy brand or business be closed or sold. If they enter the family business, they do not want to enter one that is stagnant and that does not reflect a global canvas. If they have worked with successful global businesses, and are educated and capable, they do not want to enter the family business if they cannot contribute what they have learned.
So family succession is not just a transfer from one generation to the next, but from one culture to another. While growing up in an Asian environment, the rising generation considers the Western values of continual adaptation, seeking new opportunities, transparency, open discussion of differences, and clear policies and agreements necessary and useful.

The rising generation, especially the most talented, may be reluctant to enter the family business, even if tradition suggests they should. They have other opportunities; the most capable of them may live in other places and not even feel connected to the family business.

Succession is about much more than the elders’ naming a successor. They must create an environment that invites the rising generation to be engaged, where differences can be discussed with respect, and where the business can forge new paths, taking advantage of new opportunities that their family resources and reputation make available.

Sometimes, tradition must be modified. For example, women have also developed professional skills and should be considered candidates for the family enterprises along with their male relatives. The choices of whether to start new businesses, remain united as one, or pursue several must also be considered. Different successors or family branches may want to pursue different levels of investment and take different levels of risk in expanding the business. But going in diverging ways challenges the values of unity and harmony. These differences must be delicately negotiated.

The family also faces the challenges of family size. Like affluent people all over the world, the Asian founder may preside over not one but two, or even three, family generations. While in China the effects of the one-child family mean that a rising generation family can be smaller, most third-generation families outside China may contain many members. If they do not follow the tradition that the oldest will assume leadership, how are the families going to select their next leaders? How can a family select a rising generation leader and also treat those who are not selected—and those who do not work in the family business—fairly? These considerations color the succession process, making it more complicated than the family elders anticipated. The process of succession takes more time, energy, active engagement and, more important, devotion by the family than it expects.

Family succession is not just a transfer from one generation to the next, but from one culture to another.
Succession planning: Principles and practices

Succession has grown more complex and challenging. It is a process of looking ahead to the rising generation of a family enterprise, engaging the family in charting the path, and encouraging, training and then selecting the rising generation of leadership.

Our understanding of family business succession has developed over the past 30 years. By the second or third generation, there are usually more family members than can possibly work in the business, but who expect to inherit ownership. The role of family owner must be differentiated from that of family manager. Family successors may exercise oversight as owners while moving toward a model of non-family operational leadership. If the family has employed non-family executives, the owners must hold them accountable and make major strategic decisions with them. Each family heir who inherits ownership needs skills to exercise effective oversight, particularly if the business or family assets are considerable.

The complexity of what the founding generation has to do is greater than what it may anticipate. It is no longer a question of simply deciding who will succeed them as business leaders. Family business owners must change the culture of the family to balance the values of tradition with innovation and change. They cannot do this alone. They need the active participation of multiple family members from older and younger generations. The family has to look ahead to the future, decide where it wants to go as a family and as a business, and then create and implement a plan for how to get there. This is usually more than a family initially expects when it begins to consider succession.

From the experiences of successful business families around the world, we have identified these six basic principles for family succession:

- Dedicate time and energy to develop a succession plan
- Shift from family first to business first
- Balance values with business realities
- Actively involve both older and younger generations
- Learn from the experience of other families
- Actively develop the rising generation

These principles and their action steps are summarized on the next page.
1

Dedicate time and energy to develop a succession plan

Our data suggest there is a gap between what people intend and want, and what they actually do. With the everyday pressures of the business and the sensitivity of the issues, it is easy to put off beginning succession-related activities.

If the family leader is concerned about possible conflict, hurt feelings or potential differences arising, he or she is likely to delay.

2

Shift from family first to business first

As a family business grows, it must begin to operate on good business principles. Family members cannot just enter the business; they must have the skills and dedication to contribute to its future success.

The family must shift from a structure organized around the founder to a business structure that defines results, processes, roles and responsibilities. This often entails challenging family practices that have existed for many years.

A business-first perspective may mean looking critically at whether to sell a venerable family business, or whether it is time for some leaders to step aside. While these decisions may be necessary for the business, they can be tough for family members to accept, and may cause animosity.
3

Balance values with business realities

Succession means different things to members of different generations. Before the next leader can be chosen, the family must define what it wants from the business, and how it wants to work together.

Creating a synthesis of these different sets of values is not quick or easy, and cannot be done without engaging the family.

4

Actively involve both older and younger generations

In the early days of a family enterprise, most information is closely held in the mind of the founder. As the rising generation comes of age, they must learn about the business as well as understand what is expected and how they can become involved.

Discussions about the future of the family enterprise concern all potential family owners, not just one successor-in-waiting. Most families have regular family meetings, which should include older generation owners and family members who desire to be part of the future leadership.

Planning for family succession begins by defining a vision for the family and the business. It might include discussing whether to sell the legacy business, to create a family office or foundation, or how to diversify in the future. A clear plan for the future makes it easier to select the best person to lead.

ACTION STEPS

• Clarify the family’s traditional values, and consider how they can be modified for the business to continue to succeed.
• Have older and younger generations share what they want from the business and what they expect their roles to be in moving it forward.

• Define a vision for what the family wants from the family enterprise for the rising generation.
• Set up regular communication from the board to the family.
• Have a regular business briefing for all family members, with opportunity for discussion.
• Clearly define leadership opportunities and requirements for the rising generation.
Learn from the experience of other families

While every family approaches succession differently, the family should learn more about possibilities, opportunities and what other families are doing before moving forward.

Business is changing, and to be successful, families must adapt and change how they conduct the family business. Learning about new models and possibilities is essential.

Actively develop the rising generation

Standards for participating in business leadership in the rising generation become higher as the business grows more complex. By making expectations for development clear, a family leadership candidate can know what path to take to advance.

To become a family leader of a large and complex set of enterprises takes many years of preparation. Successful families invest in opportunities for family members to learn and expand their skills, whether or not they become employed by the family. A family member may work outside the family for many years, or raise a family, and at a later time become an active leader in the enterprise.

ACTION STEPS

- Seek out other families who are dealing with these issues.
- Attend conferences and courses that teach best practices for families, and share what is learned with the family.
- Ask each member of the rising generation to develop a personal development and career plan.
- Mentor family members to develop their careers, first outside the family business, then inside it if they are chosen.
Overview of the participating families

The majority of family enterprises that participated in the survey come from four main geographical areas: Hong Kong, Southeast Asia, China and Taiwan. Of these, only Hong Kong and Southeast Asia have family enterprises where Generation 3 or higher is exercising major decision-making control in the family enterprise, reflecting the regions’ history and commercial development. By contrast, in Taiwan, half of the family enterprises are controlled by Generation 1 or the founder, and the other half are controlled by Generation 2. Not surprisingly, 80% of China’s family enterprises are still in the control of the founders (Generation 1).

Gender in control

In Asia, control of family enterprises still largely rests with the males of the family, with only 13% of the survey participants reporting female control. China has the largest percentage (27%) of family enterprises controlled by females, followed by Taiwan and Southeast Asia (12%) and Hong Kong (8%). Even with the globalization of many family enterprises, there is still a gap between family enterprises in Asia and those in Europe/the Americas on the prominence of women decision makers.
Age in control
Across Asia, the majority of family enterprises are in the control of those who are aged 46–75. In China, those in charge are generally younger, with more than 75% in the 31–60 age bracket. For Hong Kong and Taiwan, those in control are older, with more than 50% in the 61-75 age range. For Southeast Asia, diversity is the norm, with some family enterprises controlled by those who are 31-45 as well as a noticeable number with leadership over age 75. This variety is likely a reflection of the economic history of the region.

Operation history
Most of the family enterprises we surveyed have been in operation for 21–40 years, but there is great variety across the region in terms of business longevity. China’s family enterprises all have been in business for 40 years or less. At the other extreme, half of Hong Kong’s family enterprises are 40 years or older. In both Taiwan and Southeast Asia, there is a wide range of operational history, most being in the 21–40-year bracket, but many are also in the 41–60-year group.

Ownership of legacy business
Of those in our survey, 90% of the family enterprises still retain the legacy business, but many have diversified into other business lines as well. Only in Hong Kong, Taiwan and Southeast Asia have families sold their legacy businesses. Taiwan leads in terms of business diversification, followed by Southeast Asia, Hong Kong and China. It is also interesting to note that those family enterprises that are controlled by second and third generations are more likely to have diversified into other businesses or even sold the legacy business.
Dr. Dennis T. Jaffe, Ph.D., a San Francisco-based advisor to families about family business, governance, wealth and philanthropy, recently completed the study *Good Fortune: Building a Hundred Year Family Enterprise*, published by Wise Counsel Research. This research project is entering its third phase this year.

He is author of *Stewardship in Your Family Enterprise: Developing Responsible Family Leadership Across Generations*; *Working With the Ones You Love: Building a Successful Family Business*; as well as management books *Rekindling Commitment, Getting Your Organization to Change* and *Take This Work and Love It*, and more than a hundred management and psychology articles. In 2005 he received the Beckhard Award for service to the field from the Family Firm Institute. He has a B.A. in Philosophy, an M.A. in Management, and a Ph.D. in Sociology, all from Yale University; is a licensed psychologist; and is professor emeritus of organizational systems and psychology at Saybrook University in San Francisco.
At J.P. Morgan, we work with individuals and families throughout Asia who run family businesses and often face the issues presented in this study. Deeply familiar with the challenges and sensitive nature of many of these concerns, we are able to provide our clients with the sophisticated advice and guidance that can only come from years of experience.

Any member of our dedicated team of professionals would be glad to discuss the opportunities and challenges of transitioning a family enterprise from one generation to another. We invite you to contact us at the office most convenient to you. We look forward to a conversation with you.

**Hong Kong**

27/F Chater House  
8 Connaught Road Central  
Hong Kong  

Kam Shing Kwang  
Market Manager  
Hong Kong, China,  
Sponsors, Philippines and Thailand  
852-2800-2228  

Cynthia Lee  
Head of North Asia Wealth Advisory  
852-2800-2657  

**Singapore**

17/F Capital Tower  
168 Robinson Road  
Singapore 068912  

Rahul Malhotra  
Market Manager  
Southeast Asia  
65-6882-7646  

Seow Chee Goh  
Head of Southeast Asia Wealth Advisory  
65-6882-7376