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Red Packet
Keeping family businesses together

Keeping family businesses together

Is it the business that keeps the family together or the family that keeps the business together?

By **Evanna Phoon**

In December last year, Malaysia SME organised its regular Business Networking Seminar (BNS). But this particular session of the BNS was so important that I especially took the time to attend.

The speaker was Lelainie Mohd Nor of University Tun Abdul Razak, and she talked about her project - Successful Trans-generational Entrepreneurship Practice (STEP), which is of much relevance to my column on family businesses and succession planning.

As the audience listened to her interesting and insightful one hour talk, I was amazed at the research and work done by her to compile those global case studies on real life family businesses. The talk had indeed enriched my knowledge, and at the end of the day, one impactful phrase kept repeating in my mind: "Is it the business that keeps the family together? Or the family that keeps the business together?"

We went through the three circle family business model in the previous issues: the first circle is family, the second circle is business and the third circle is ownership.

My line of work deals more with the ownership circle - we help clients to set up a family business trust to hold on to the shares of the family business in order to avoid splitting of the shares downwards to their descendants.

This action is to protect and preserve the shares or assets of the family, and to ensure that the dividends or income derived from the assets will be enjoyed through many generations while not touching the initial capital.

We call this an Asset Protection Structure.

If we do not have an Asset Protection Trust structure put in place, what will happen is that the company shares will be split downwards, between for example four children. Each will own 25% of the company shares, and their chil-

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dren's children or great grandchildren will own maybe 4% - 5% of the company shares.

Another worry is also on the ownership of the family business shares which will fall into the hands of an unintended third party. I have a client who, during his lifetime, has transferred part of his shares to his daughter and her daughter recently passed away. He worried now because his son-in-law now owns a portion of his daughter's shares (which is his company's share) and he is worried about what the son-in-law is going to do next.

Just imagine the Asset Protection Structure as the "hardware" of a successful succession of a family business because with a trust in place, it'll takes care of the ownership portion. The question is, is it enough?

My answer is obviously a big no. We also need the "software" part.

When the founder sets up an Asset Protection Trust, it is important to also think of a family governance structure

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A holistic, successful plan takes time and effort

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in place for the family to follow in case the founder is no longer around.

Family governance is a set of family rules and a family constitution. This is a very personal process, and varies depending on individual families. A very fulfilling process is when I spend most of my time with the client and their family members to draft the family constitution or family charter.

This is a indeed a very personal process.

They'll (family members) talk about the background of the family, and how the grandfather of the founder came and made his wealth and how the founder expanded the business.

What are the unique family values and traditions? What are the election processes to elect a family council, or as some call it protective committee, to represent each family branch and to make sure that the family stays together in all major decisions.

Let's take a look back to the example of the above four children; when the founder is around to continue to make certain request to the trustee and tells the trustee how to go about with certain things, but when the founder is no longer around, if the trustee listens to one, the trustee might make the three other children unhappy. Or if the trustee listens to three, it will make the one unhappy.

We all know that family issues are sensitive issues that must be dealt with using extra care. A proper family governance structure will now help these four children give unified advice, and put in place a process to help them achieve an agreed decision to give to the trustee. This is an important issue that a lot of Malaysian SMEs might overlook when planning for their trust.

A holistic and successful succession of a family business takes time and effort to plan, but it is definitely worth the effort. From my experience, this type of planning is an exhaustively long and complicated process, but I try to make sure that my article in this column is simple to read and easy to digest for the benefit of the Malaysian SME community.

Statistics show that many Malaysia SME businesses do not survive more than three generations. We hope that by sharing in this column, we can see more Malaysian SMEs thrive, even after many generations.

In the next issue, I'll go more in-depth about the family governance structure ...

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