

# Helping Families Manage Business and Generational Transitions

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## Outline

- \* Succession is a great challenge to Chinese families
- \* Drawing a road map of succession planning
  - \* Roadblocks
  - \* Specialized family assets
- \* Action must be an integrated approach
  - \* Family governance
  - \* Ownership design
  - \* Corporate governance

“If a country’s family businesses have leadership succession around the same time, it will cause a systematic risk”

Joseph Fan, Financial Times, August 7<sup>th</sup>, 2012

**Succession is a great challenge:**  
Most Asian families / companies don't do well.

*The Economist*,  
Feb. 5, 2011.

Source: Joseph Fan,  
Ming Jian, and  
Yinhua Yeh,  
“Succession: The  
Roles of Specialized  
Assets and Transfer  
Costs”

### To come

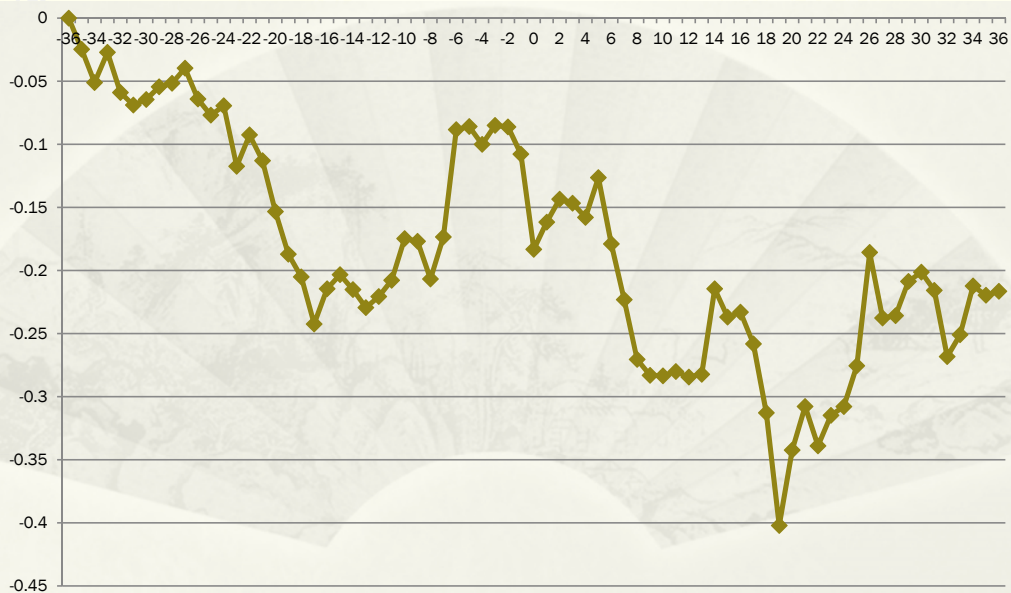
Accumulated stockmarket returns of Hong Kong, Taiwan and Singapore listed family firms in succession, 1980s-2000s, %



Source: Joseph Fan, Chinese University of Hong Kong

## Wealth loss of family business succession in China

(Monthly accumulated market adjusted stock return, 12 firms)

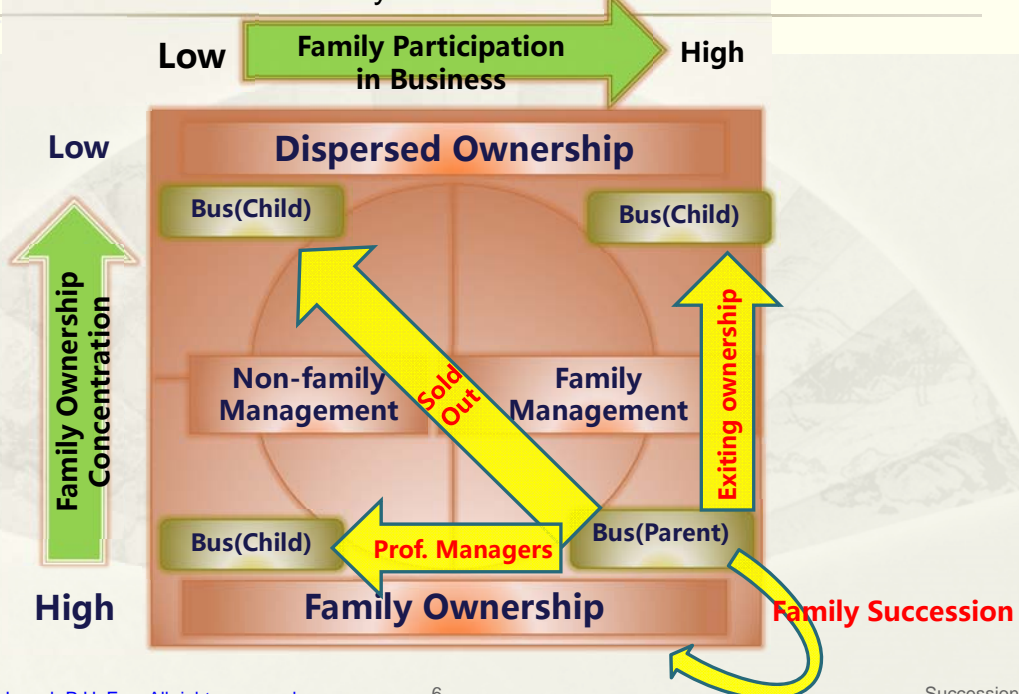


# A Broken Map

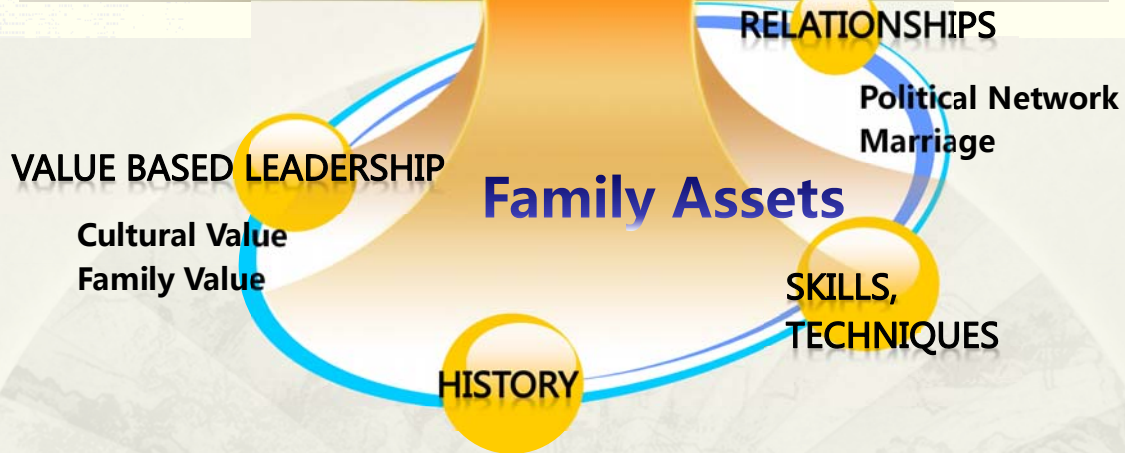
- \* Biased:
  - \* Family businesses are great
  - \* Family businesses are out of date
- \* Tunnel vision:
  - \* Wealth managers: it is all about investing your family money
  - \* Bankers: there is only one way to preserve your family wealth – a family trust
  - \* Family consultant: let me be your family messenger
  - \* Family coach: pay me to teach your family communication
  - \* Business consultant: standardize your business, let professionals take charge
  - \* PE/VC: remove your family members, go public, no matter what
  - \* Security regulator: Maximizing investors' interests is your business' only goal
  - \* Lawyer: let me and the court deal with your family problems

## Financial Planning Should be an Integrated Part of Family Business Planning:

Where Should the Family Business Go to 20 Years Later?

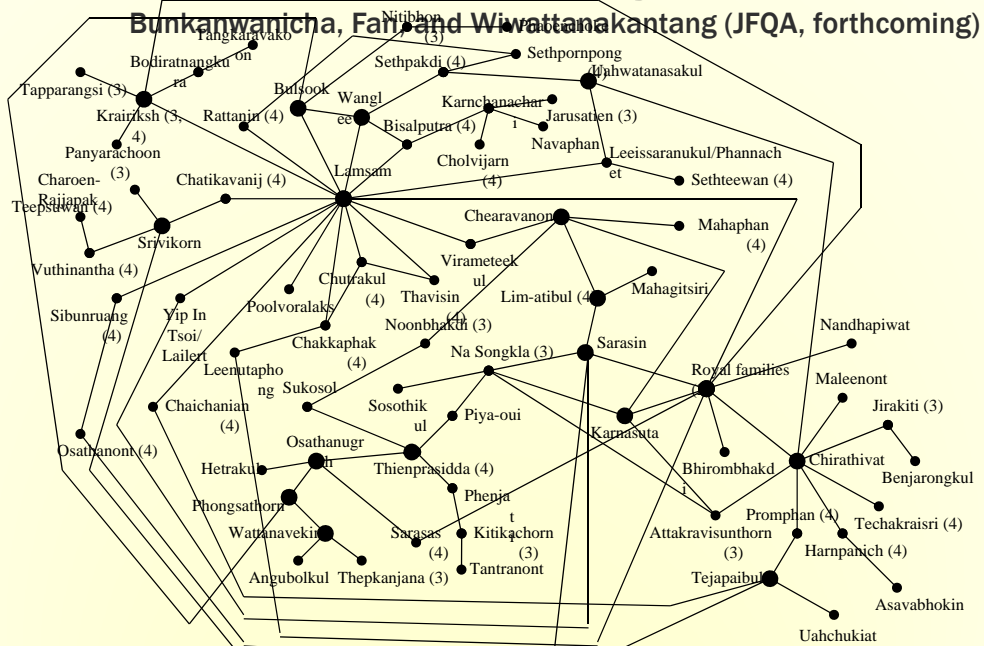


## Value of Family Management



If a family wants to sustain the management of a family firm its business strategy shall aim at enhancing the value of family assets.

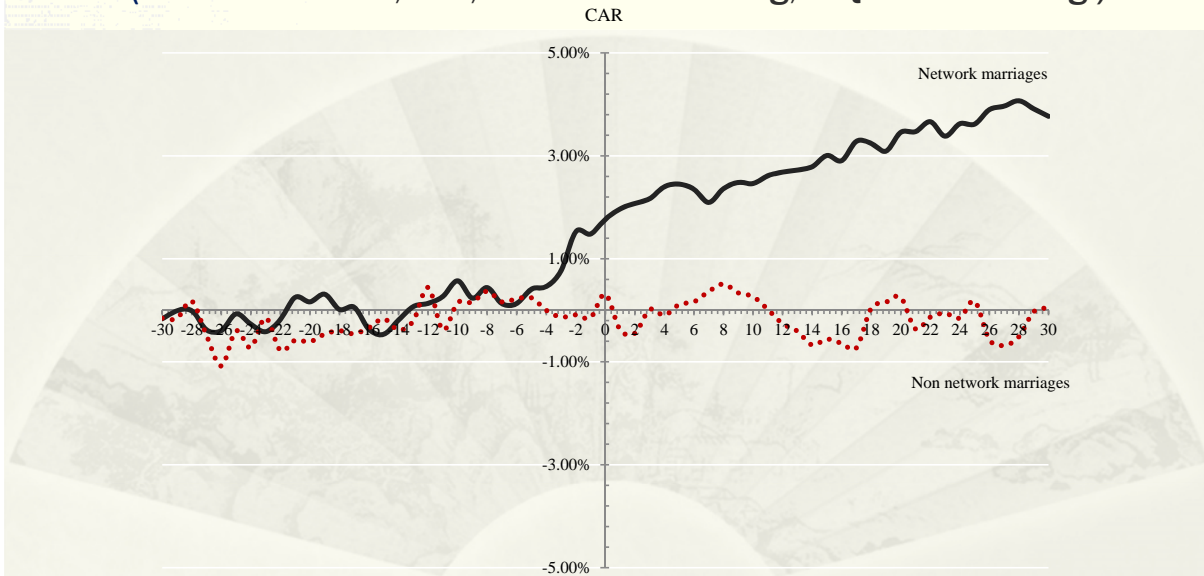
## Specialized Family Assets: Network by Marriage (Thailand)



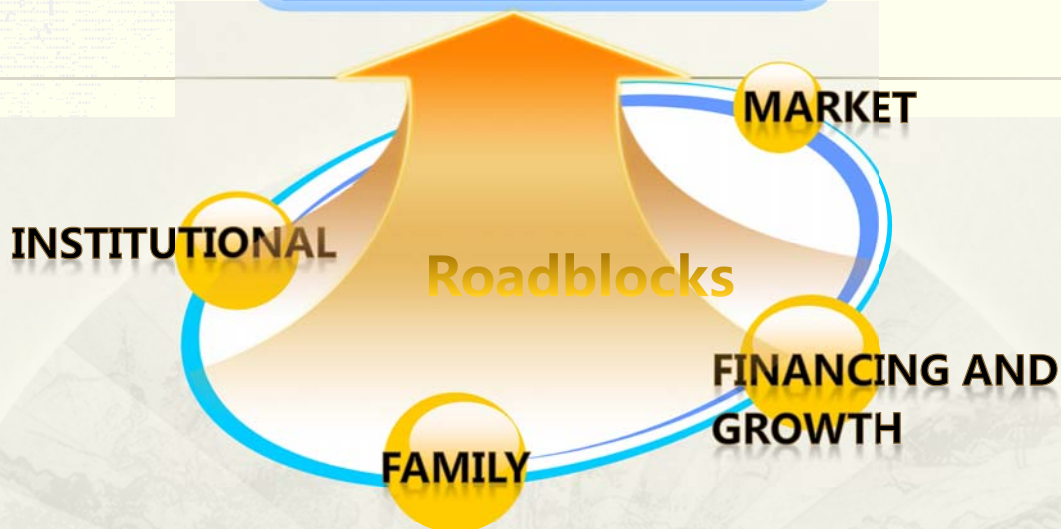


# The stock market reaction to marital news

(Bunkanwanicha, Fan, Wiwattanakantang, JFQA forthcoming)



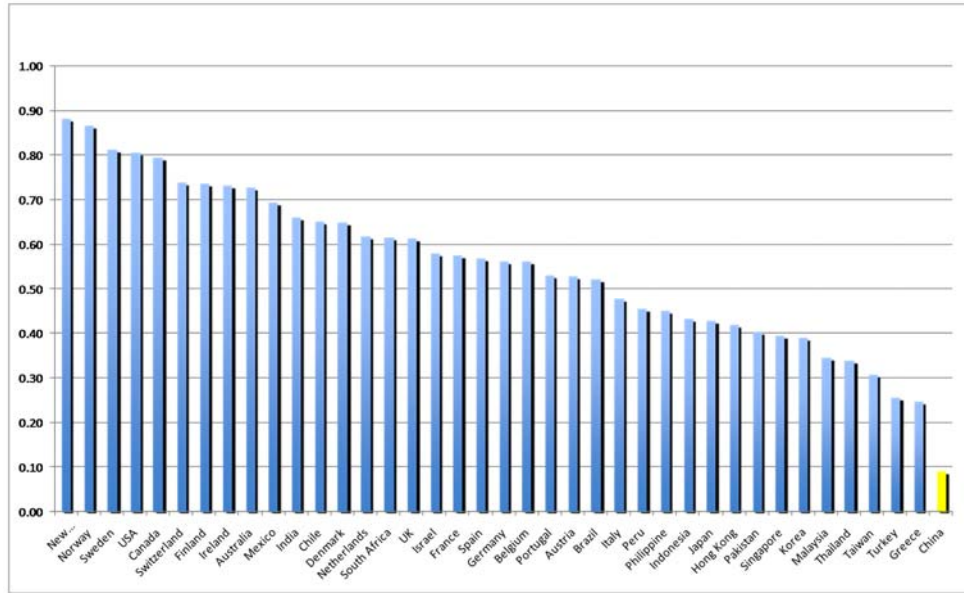
## Value of Family Ownership



If a family wants to sustain the ownership of a family firm its governance strategy shall be focused on removing roadblocks.

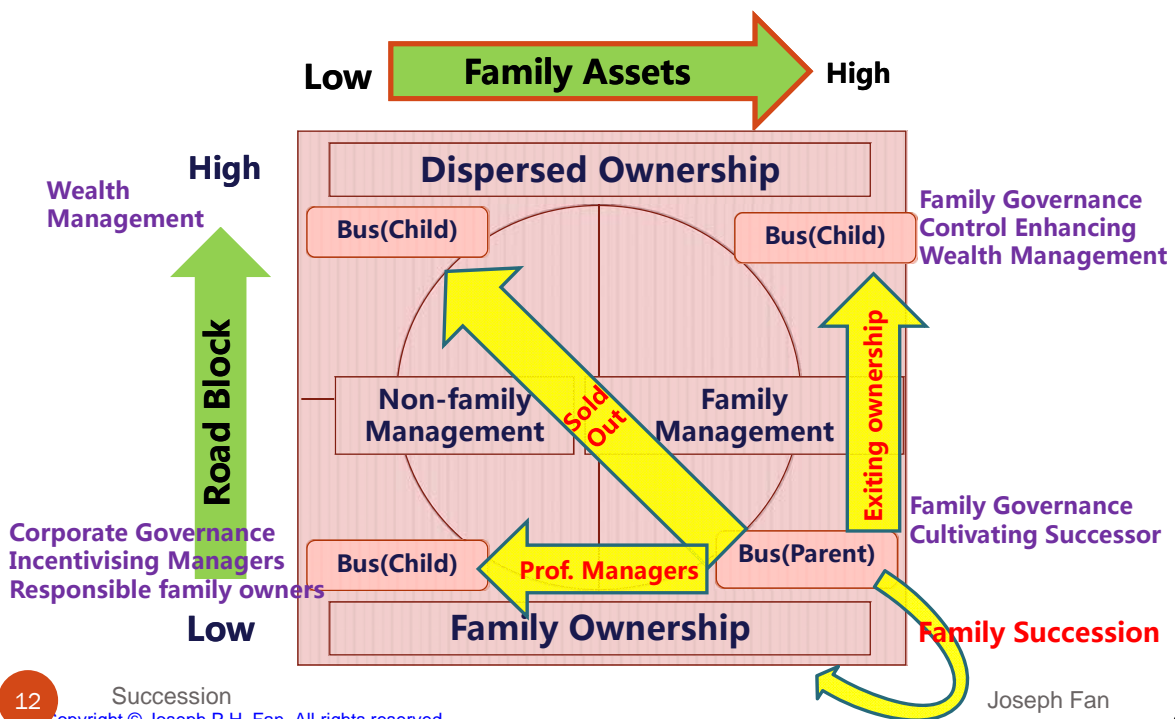
# China and Southeast Asia are among the world's most difficult places for external finance

Cross country pattern of corporate debt maturity (Fan, Titman, Twite, JFQA 2012)

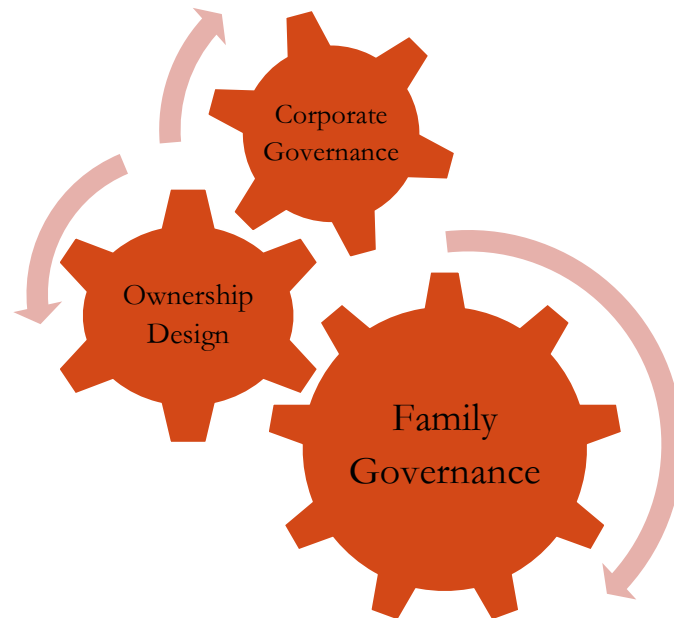


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## Roadmap of Family Business Planning



## Governance Mechanisms That Reduce Transition Costs



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## Critical Family Governance Issues

- A family governance system that
  - separate family and business affairs
  - harmonize family values
  - fits the family culture
- How families make decisions?
  - Traditional family authority?
  - Voting?
    - By ownership?
    - By performance?
    - One person one vote?

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## Critical Ownership Issues

- Ambiguity of who own what
  - When to distribute ownership rights among family members?
- Ambiguity of owners' rights
  - Decision power separate from ownership
  - When will dividends be paid, and how much?
- Lack of liquidity/transferability for adaptation
- Taking medicine without knowing side effects
  - Complex ownership structures such as pyramids
  - Poorly designed family trusts

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## Critical Issues of Corporate Governance

- Poorly functioned corporate boards
- Shortage of family human capital
  - Lack of a qualified and interested successor
  - Abundant interested but unqualified relatives
- Not able to attract or keep non-family managers
  - Lack of trust
  - Lack of cultivation, short-term oriented
  - Poorly designed promotion and compensation policies

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# Conclusions

- Families need an integrated road map to plan their family and business succession
- Sustaining business families, we need
  - Family governance that shares family values and consolidate family interests
  - Ownership structures that are kept simple, low cost, and effective in empowering, incentivizing, balancing, and rewarding family members
  - Corporate governance that induce incentives and collaboration of family and non-family managers
- Families need to find their own cultural values, and modify standard tools to fit their cultures.



## Biography of Joseph P. H. Fan

Joseph Fan is Professor of School of Accountancy and Department of Finance, and Director of Institute of Economics and Finance of The Chinese University of Hong Kong. Professor Fan received his Ph.D. in finance from University of Pittsburgh, USA. He has done extensive research on family business in emerging markets, covering issues such as succession, ownership design, and family networks. Professor Fan is also an expert in finance and entrepreneurship in China. He is one of the most well cited finance professors in Asia. He has published many of his works in world top academic journals, and is on editorial boards of several academic journals. His corporate governance and family business research has been featured by various business press, including *The Economist*, *New York Times*, *Asian Wall Street Journal*, and *Financial Times*. He often gives speeches and courses on family business governance topics across China and South East Asia. His new book “*Critical Generations: Out of the Succession Dilemma of Chinese Family Businesses* (In Chinese),” is the first to focus on Chinese families’ succession planning. Professor Fan has consulting activities with the World Bank, OECD, and Asian Development Bank.