A Five-year plan for wealth succession and preserving legacy in family businesses

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There's a saying that clogs to clogs is only three generations. That's why to all family firms across the globe, wealth succession is the key to survival.

According to The Family Business Model report released by Credit Suisse in July 2015, among the 920 publicly listed companies recorded in its database, shows that 50% of the family businesses in the database are transitioning from the founder to the second generation, 22% making the third generation and 10% to the fourth generation.

Most successful corporations in Hong Kong started out as family businesses set up after World War II in the 1940s and 50s. According to a 2015 report by

Taiwan Institute of Directors, a total of 743 firms in Hong Kong are held by 625 families. These companies are now in a critical stage of transition. For instance, Hong Kong tycoons on the Forbes' Rich List such as the 88-year-old Li Ka-shing (whose assets worth US$27.1 billion, HK$210 billion) and Lee Shau-kee (whose assets worth US$21.5 billion, HK$166.7 billion) are now planning to pass down their gigantic fortunes to the next generation.

A Reason to Take Up the Torch

Dr. Wong Kam Shing, an entrepreneur and researcher at the Chinese University of Hong Kong's Centre for Family Business, has been looking into factors that facilitate successful transgenerational entrepreneurship since 2009. He says first and foremost the older generation must come to terms with the mindset of their potential successors. "It would only be wishful thinking that young members of the family are willing to take up the torch. Many of them have been studying and living abroad and would have no trouble landing a job in any major firm. So it's normal that some of them don't see working in the family firm an interesting prospect."

During his seven-year research, in which he studied different cases of family firms, Wong found that many young people didn't want to take over their family's business because they didn't want to be called a "crown prince" or to be known as someone living off inherited wealth.

"If the company is running smoothly, then people will accuse them of meddling with a successful operation or lacking the guts and talents to beat their own path. These are of course push factors that deter the next generation from taking over their family businesses," he adds.

To help the next generation to overcome their mental blocks, Wong says there must be sufficient grounds to justify the succession. "It must be shown to the next generation that there's definitely prospect for development and they could contribute as well as learn from their family business."

Step by Step to Start From Scratch

After much research, Wong came up with a precise “5-year Plan” to help family firms to resolve the issue of succession. The senior generation will step by step assist younger members of the family to take over their business while assessing the latter’s attributes as leaders.

Just as everything is difficult at the beginning, the first year is particularly important. “I suggest to give young people a little more freedom during the first year. Give them a free rein to do what they like in the company. The idea is to let them engage and build relationships with lower level staff so that in case of future emergencies they will have trusted personnel to rely on,” Wong explains.

The next 12 months is the time when young successors start practicing in different departments, learning specific skills set under the tutelage of senior managers. “Every department, from accounting, retail sales to human resources, has its specific knowledge. Let the young people learn from the seasoned professionals so as to prepare them for making their own SWOT analysis (a tool to identify the strengths and weaknesses of a corporation as well as the opportunities and threats it faces) in the future.”

Wong says the older generation shouldn’t intervene too much during the first two years. “Even if you really want to help, it’s better to ask someone else to do so. We must understand that young people will have ideas that may not be in line with your thinking. This is where conflict will arise,” says Wong. “So it’s better to maintain a healthy distance with your successor during the first two years. It is when they can make their own SWOT analysis in the third year that you can have them involved in discussing business strategies and operations.”

It is when young people can make their own judgement that the elders could start assigning them about 30 per cent of business tasks while maintaining control over the company’s 70 per cent of decision making. “That 30 per cent should be simple and minor tasks that they could try on their own. On the other hand, young people must be briefed clearly in the major decision areas," says Wong, adding that the elders should occasionally praise their heirs so as to appreciate their effort. "Sometimes you have to let them revel in their achievements."

Overcoming Challenges to Reach New Heights

After the younger generation gradually gain trust from staff and external partners, Wong suggest the elders to give their heirs more autonomy and decision-making clout. "At this stage, the new leaders are working independently. It is only when they come across insurmountable obstacles that they should seek the elders' advice."

During the fourth year, the elders should include the next generation in the planning and management committee so that the latter could involve in making plans for the company's developments. "The world is changing every day and every change brings about different impact on the company. For example, how should we react to the bleak prospects in surrounding economies? It's time for new blood to draw up new plans," Wong explains. "It is through facing up to challenges that young people could understand the harsh realities of business and learn to identify new opportunities amid crisis."

To Wong, every business will go through stages of growth and inevitable downturn after peaking. With five years of hard-earned experiences under their belt, the following generation can face up to challenges and lead their family firm to new heights.

"The world is forever changing, and change brings about opportunities. If the new leaders can learn from their forebears, combine the latter's wisdom with new knowledge and capitalize on new market opportunities, then the family business will continue to thrive and prosper."

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