The Road to Succession: How to Fully Achieve the Sustainable Development of Family Corporations?

The workshop opened with moderator Professor Witman Hung, JP, Principal Liaison Officer of Hong Kong Shenzhen Qianhai Authority, noting that this sensitive topic was so taboo in the Qing Dynasty, just 120 years ago, that any discussion of succession planning was illegal while the patriarch lived. Times are changing though, and Christopher Lau, Group Assistant Managing Director, Cargo Services Far East Limited, related his personal journey as second generation successor in the logistics empire founded by his father, Hong Kong entrepreneur John Lau.

“All businesses have unique succession difficulties, but when family members are involved the degree of difficulty increases many times over,” he said. “More resources, more time and more planning are needed to make it smoother.”

He described three amusing lessons he personally has learned: “The boss is your boss, not your father. The boss will become very emotional with you, and you with him, so keep your emotions in check. The boss can be very professional with everyone else in the corporation, but not you.

”If this doesn’t kill you, it makes you stronger – and I continue to keep this in mind 365 days a year!”

In his case, Mr Wong eventually led Cargo Services into the digital era with eCargo riding the Alibaba e-commerce wave with a successful IPO in Australia. Migrating into a new business culture and working with many talented young individuals required bridging that generation communication gap, he said. “Succession is often considered risky, but family corporations with a clear road can also gain strategic competitive advantages.”

“There’s huge opportunity for the second generation in the digital era. My suggestion is that patriarchs can be more open-minded. Give the second generation an opportunity to get their hands dirty and learn from experiencing their own successes and, more importantly, their failures.”

“Ultimately though, we should always remember that family comes first and we should be happy as a family. If we can afford professional advisors on succession, let’s not forget that we are in a very good situation.”

John Wong, China Family Business and Private Client Services Leader, PwC Hong Kong, noted “increasing acceptance” of successional planning over his 30 years of experience as consultant to high-net-worth individuals and families.

There was a time, he said, when it was accepted “when he says yes, nobody can say no.”

“Most of the patriarchs believed they would live forever, maybe 100 years, so they would bother about succession planning later, not now.”

But the issue is now more pressing, especially in Hong Kong where most dynasties are old money, with founders in their 80s and 90s. “China is more new money, with the average tycoon in their 50s, 40s and even 20s. In Hong Kong, the entrepreneurs are older and keen to learn from the West how to pass on their wealth– they want to know how the Rockefellers and Rothschilds managed it.

“And for succession, of all assets whether property and money, the family business is the most important. But they need to face the fact that their next generation is well educated and may have ideas about moving the legacy forward, reinventing it with innovative new business models.

“Of course, not one size fits all. Some ‘second-gen’ children may not be interested, with ambition to be a doctor or lawyer, for example. But the point is that families need to take advice and figure this out together.”

Underlining the growing acceptance of succession planning, Mrs Amy Lo, Chairman, Executive Committee, Private Wealth Management Association and Head and Chief Executive, UBS Hong Kong Branch, said when UBS recently organised an exclusive four-day conference on the issue for high-net-worth families and patriarchs, the region’s top 60 attended. “They are very concerned that wealth should extend beyond the traditional three generations,” she said.

“In the past it was not done to discuss the topic, too sensitive to discuss, so succession was not on the table. The traditional mindset was that sons would run the business and daughters would run their philanthropy.”

The assumed philanthropy role of daughters was clear from another conference UBS organised on sustaining charity legacies, when 80 per cent who attended were wives and daughters.

“Now families accept that not all sizes fit all and they have to plan early, engage their next generation, discuss the issues practically, and find a solution that meets the expectations of both – agreeing through some forms of family constitution.”

“Our advice is always to engage professional help as a mediator between generations. There are ways of “doing it and families are starting to open up.”

Finally Mr Mervyn Tang, Senior Director, Global Head of ESG Research, Sustainable Finance, Fitch Ratings, noted that succession planning also benefits from a financial bottom line – the business credit rating.

“In a globalised world, corporate governance is an important concern among investors,” he said. “There are huge data out there on board structures, a lot more information and also a lot more scrutiny.”

“If one key person is making all the decisions, the risk that something might happen to them can alert credit ratings. There are unique positive aspects to family businesses, but when they have grown into global institutions there are also negatives without clear succession in place.”