



# KEEPING IT IN THE FAMILY

The passing of wealth from one generation to another is a noble ideal. Yet, as **CAROL YIP** discovers, there are many issues and challenges that can hinder the smooth transfer of generational wealth

**T**he preservation of family wealth, according to Singapore-based private banker Kelvin Ling, is the securing and continuity of both liquid and illiquid financial assets for the continued sustenance and financial well being of the family for the current and also future generations.

The passing on of the family business, Ling told Smart Investor recently, was probably the most common form of preserving - and even growing - the family wealth. Yet, he said, it was also one of the most challenging.

"Why is that? Very often it is the perceived equitable, or the lack of it, transfer of the family business from one generation to the next is what causes untold numbers of feuds and disharmony.

"Sometimes, the current generation may also have a difficult time releasing the reins and control of how the business should be operated when passed to the next generation, due to fixated notion of how things have and should always be," he added.

Yet, according to Ling, one thing was clear, the planning for such a transfer had to begin early. "As soon as when the first thoughts of handing over the reins ever crosses his/her mind. The final form or structure of transfer will not happen on the first attempt and would typically have gone through multiple changes and tweaks over time," he said.

"So It's best for the owner to start thinking through and working out a few models, allowing for feedback and suggestions from all parties of interest, before being able to settle on the most agreeable structure," he added.

To facilitate such generational transfer, Ling suggested the formation of a family council that would hold regular meetings to discuss and agree on key points of interest, which would ensure the continued harmony, well being and relationship between all members of the families.

"If not, a trusted third party such as the family's lawyers, private bankers or certified professional accountants can be roped in to assist with the process. If the family's assets are substantial enough, the creation of a family office where professionals are actually hired by and work for the office to attend to the family's financial well-being," he added.

To minimise greed and lack of trust amongst family members, Ling also suggested the formation of a Trust Deed. "A Trust is the most common tool a business owner can use to ensure

the succession and continued well being of family members, in the manner and way he/she deems fit based on his understanding of each member of his/her family,” he said.

“This allows for an unbiased third party, i.e. the trust, to be the manager for the continuity of the family wealth, thereby minimising the issue of mistrust or greed,” he added.

According to Dr Johnben Loy Teik Cheok, a US-licensed marriage and family therapist and founding director of Malaysia’s first marriage and therapy centre, Kinterlink, a common challenge faced by many was to whom the family business should be passed to.

“One of the most common challenges faced by founders is finding the right successor. The two factors that emerged as likely the most important are trust and capability. The founder needs to know that the successor can be trusted not to simply squander off the wealth but can be entrusted to lead the business well for the sake of the business, which ultimately, is for the sake of the family.

“This tends to be the case for more successful

businesses. For the smaller businesses, the challenge is to be able to retain the children within the business rather than to have them go off and do something of greater interest or potential for themselves, especially if they have been educated well.

“When should the owner start planning for the wealth or business transfer? Start planning when the child is born. Successful succession is not just about passing on the assets, it is about grooming a leader that is of good moral character, relationally-dependable by the family, and of course, capable of running the business well,” he added. **SI**



**To ensure a smoother transfer of the family business, Dr Johnben Loy has suggested a developmental lifespan model that he developed whilst teaching courses on family business management.**

- **INFANCY AND CHILDHOOD:** founder learns to parent the child. Parenting—especially fathering—doesn’t come naturally, but can be learned. Although busy, founders will do well to sacrifice time to learn to parent and love the child. Early years of bonding will result in strong future relationship bonds between founder and successor.
- **CHILDHOOD:** preparing the offspring. Founder models the right work ethic/culture to the offspring. Give the child age-appropriate part-time job exposure in the business. Pay them appropriately for the work so that they can learn the value of hard work.
- **YOUTH:** build strong parent-child bond. Cultivate bonding in non-business interactions, cultivate healthy communication and conflict management, and accept the offspring’s need to develop in his or her own ways. Practice authoritative parenting (not authoritarian parenting) where discipline and

autonomy-granting are balanced in healthy proportions.

- **EARLY ADULTHOOD:** build leadership and management skills. Provide the best education/training possible for the child. Let them gain some outside work experience. If they should join the business, let them enter into appropriate skill-level jobs, and give them performance-tied, market-rate compensation with a clear performance-tied career path. At this stage, consider mentorship (either the founder or a non-family member) as a way to train up the successor.
- **SUCCESSION:** role adjustment over time. See succession as a process over time where roles are adjusted between founder and successor. As an offspring develops successor qualities, owner should appropriately give over more authority. The owner switches over from the role of parent-boss to coach-advisor not only for the business but also as a senior family member. The owner himself/herself must then learn to find meaning in things outside of the business so that he/she does not become a hindrance to an otherwise capable successor from taking over and continuing to build the legacy of the family business.



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