

Family and Business: Planning for the Future

An Article by Alvin Yap

There is a common saying that the first generation creates the wealth, the second generation spends the wealth and the third generation blows the wealth.

The Family Business Institute calculates that only 30% of such businesses survive into the second generation, only 12% into the third generation and only 3% into the fourth.

The question then is: how does a family-owned conglomerate or business navigate the challenges to continue to thrive, grow and buck the statistics?

According to a report by The Economist in 2015, the top 15 families in Malaysia control assets worth 76% of the country's gross domestic product. These include Robert Kuok's Kerry Group, Tan Sri Lim Kok Thay's Genting Group, Tan Sri Lee Shin Cheng's IOI Group, Tan Sri Quek Leng Chan's Hong Leong Group and Tan Sri Yeoh Tiong Lay's YTL Group which are involved in diversified businesses ranging from sugar, real estate, shipping, palm oil, finance to utilities and hotels.

Family firms remain a dominant part of the Malaysian business landscape ranging from large public-listed conglomerates to mid-size corporations to small and medium-sized enterprises. Which means planning for business succession should be a top priority for a majority of Malaysian businesses. However, that is not always the case.

An effective approach to ensuring business continuity includes not just succession planning but also having in place mechanisms to manage family politics, conflicts and dispute resolution.

This holistic approach is particularly important in Malaysia where local family businesses may have a tendency to struggle with the softer issues, which are often sensitive and confrontational.

Keys to Creating a Viable Succession Plan

Establish Goals & Objectives

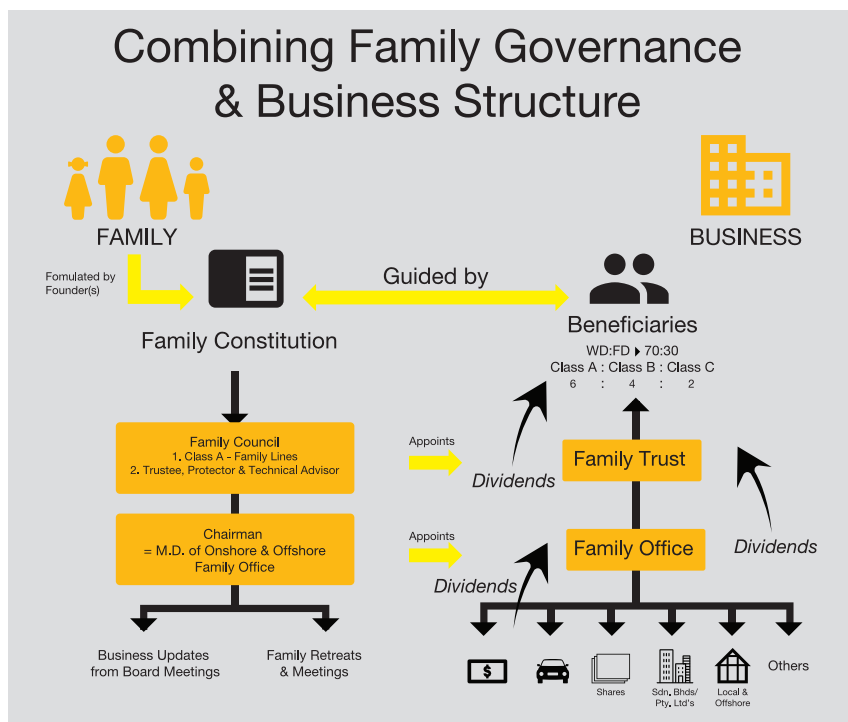
- Review current succession plan and reasonableness of achieving desired goals
- Develop a collective vision, goals and objectives for the business
- Determine the importance of continued family involvement in leadership and ownership of the company, while considering the option to bring in professional management
- Identify goals of next generation management, both personal and business
- Identify and retain a team of professional advisors

Establish a Decision-Making Process

- Identify and establish governance processes for involving family members in decision-making
- Establish a method for dispute resolution
- Document the succession planning in writing
- Communicate succession plan to family and stakeholders

Establish the Succession Plan

- Identify successors including both managers of the company and owners of the business
- Identify active and non-active roles for family members
- Identify required additional support



A good starting point would be to professionalise both the business and the family.

This means applying a more structured approach to the management of the business and the management of the family. For example, could involve the setting up of a family office dedicated to providing centralised support in managing a family's wealth to enable it to endure over several generations.

The family office can help organise the family's assets on a global basis to ensure they are appropriately invested, to protect the wealth and allow it to continue to grow. It will also enable families to clearly split their business assets from personal assets and manage their risk in a more global and effective manner. Some families may also choose to centralise other functions within the family office, such as a concierge service and the provision of tax and other professional advice to family members.

Generational Wealth Strategies Family Tree by Gender

First Generation
Founding Members (FM)



Second Generation
Class A (G2), 4 Family Lines
*include/exclude spouses



Third Generation
Class A (M) & (F) (G3),
2 Family Lines
*exclude spouses

CA(M) CB
CA(F)



Fourth Generation & Beyond
Class A (M) & (F) (G4 & Beyond*)
2 Family Lines
*exclude spouses

CA(M) CB
CA(F)

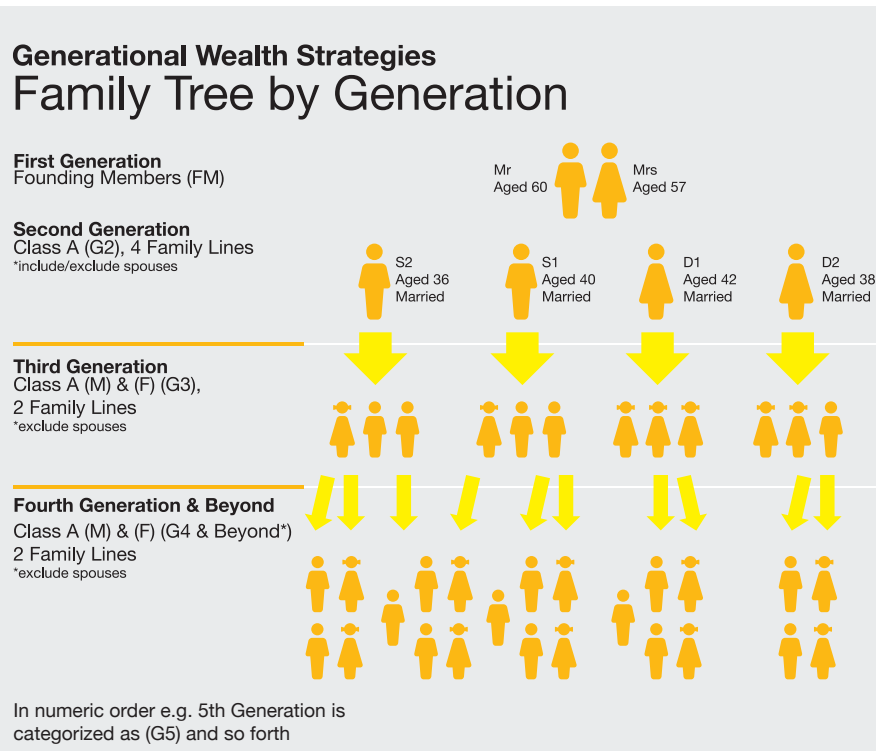
Non "ABC" descendants created with or without Cessation Fund



In numeric order e.g. 5th Generation is categorized as (G5) and so forth

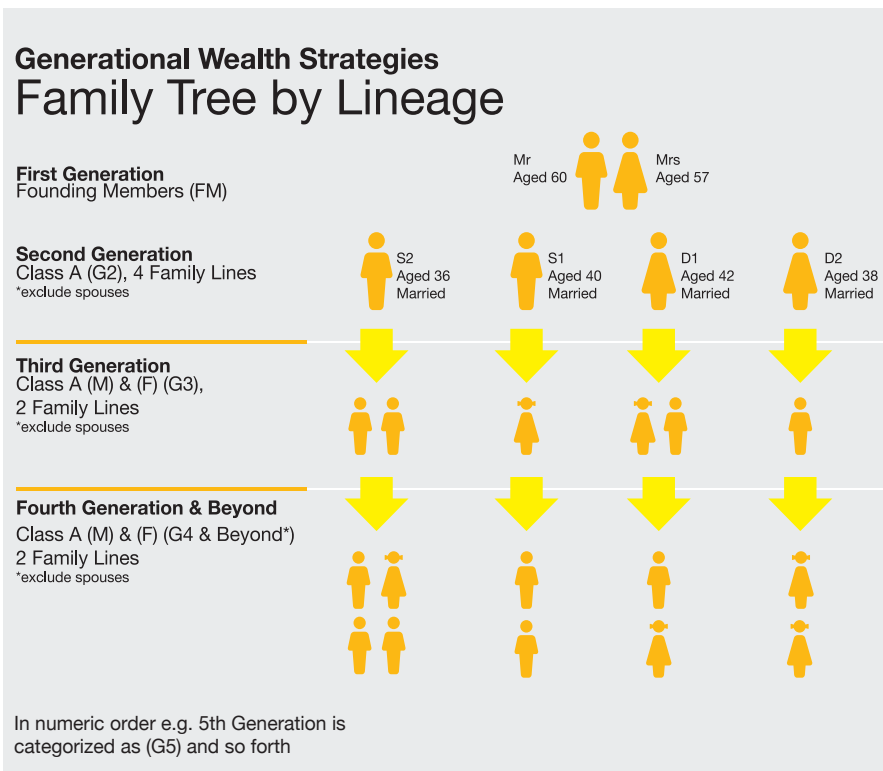
While it can be hard to accept sometimes, bringing in external professionals to help with the management of the business and family can be beneficial.

Trusted external professionals can offer an independent voice in inter-family discussions while contributing to the diversity in skills, thinking and ideas. External professionals can also be helpful in certain situations to reduce conflicting emotional elements that may be present when making decisions, particularly on the family front.



Part of a structured approach to management of the family would also include a concept called “family governance”.

If a family wants to maintain a business approach to its wealth, then that “business” needs by-laws. Part of that consideration includes who will run the family “firm” – whether the family appoints a family member with professional management experience or external professional management.



To this end, Crowe Horwath can provide professional advice and assistance to set-up the structure including creating a strategic succession plan, setting up of the family office and forming of a family trust that would meet the long-term goals of the family through in-depth consultation and understanding of the needs and dynamics of each individual family and the business.

Speak to us today to find out more about how we can help you secure your family business and wealth for your children, extended families and future generations by providing investment, financial, fiduciary and lifestyle management services that complement the family enterprise by centralizing, coordinating and streamlining all key functions.

Contact us

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