

## Time to focus on succession planning for Singapore Family Businesses

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*The recent survey of family businesses by PWC revealed that family businesses in Singapore are severely challenged by succession issues. 32% of the companies surveyed had plans to exit in the near future and this share is significantly higher than the global average of 20%. Succession woes have remained a sticking point for many family enterprises and the study has highlighted the issue. Succession planning is a daunting task for any family business. It needs to balance priority of the family members as well as the business objectives. However it is a crucial exercise that a business has to endure in order to remain resilient in the face of adverse circumstances. It has become a national concern as family businesses form an important part of the economy and a key source of job creation. The following article explores the basics of succession planning in the case of family businesses.*

### **It is never too early**

Succession planning is important because with clear and strong leadership a company will continue to operate efficiently and create competitive advantage. The founder of the business may be young therefore succession planning may appear too early, but death or disability is unpredictable. Family owned businesses often build on the identity, goodwill and credibility commanded by the founders or key owners, therefore a clear succession plan is essential to sustain the business image and value in the market among suppliers, creditors, clients and customers. Planning for succession allows time for training the successor and the induction process can be gradual and harmonious.

### **Ownership and Management can be separate**

Ownership retention is paramount in a family business however it should not jeopardize the future growth of the company. Good family governance should establish the rules for family involvement in key decisions while ensuring that the rein of the management is in the hands of professionals. By sharing a collective vision and setting clearly defined values the family and organization should continue in harmony.

### **Choose the right successor**

While ownership retention down the generations is important for family businesses it cannot come at the expense of efficiency in governance. The successor must share your vision and passion but more importantly must also have the potential and competence to shoulder the responsibility. Do not let favoritism influence your decision and look for leadership skills. Take note of the future skills that will be required when assessing the potential successor.

### **Document the succession plan**

It is important to clearly document the succession plan. Hire an attorney and draft a succession plan defining the goals, objective and roles of the successors and others involved. Establish a clear decision making process and the way of involving the family members. Define the dispute resolution process. Remember to include all contingencies and the appropriate measures in the event of such contingencies.

While drawing the succession plan pay attention to taxation issues and minimize tax implications on the stakeholders and successors. You may have to redraft your articles of association with specific attention to sale or transfer of shares, anti-dilution clause etc.

### **Communicate the succession plan**

Communicating the succession plan to the family and all stakeholders is a very important part of the process. Family systems are becoming increasingly complex therefore transparency is crucial to prevent infighting and disputes. This will also help the family and stakeholders understand the implications of events such as marriage, divorce, bankruptcy, adoption, death, inheritance, sale etc.

### **Groom your successor**

The induction process should commence as early as possible, let your successor take up the challenges and handle some critical situations it is important that they learn to make crucial decisions. This will help them evolve and allow the other stakeholders to warm to the new leader. Doing this whilst you are still at helm, will enforce your endorsement of their leadership and will provide access to your wisdom and management expertise.

### **Remember to provide for yourself and others**

Succession planning is alternatively your retirement planning. While you pass the reins to your next generation, you must be clear about your role in the company. If you plan to take it slow and remain low, make sure that there is an advisory panel for the younger successors. Finally, don't forget to provide for your personal cash flow needs and that of the other retiring family members.

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