Why Four Ps and an OLIVE are important to family business succession

It's a sad fact that many family business pioneers never plan for the day they step down and hand over the baton to the next generation. It's a failing that has led many great family businesses to flounder and, in many cases, wither away into history.

Business family expert, Cheong Wing Kiat, says failure to plan for succession is the single most important factor in the failure of a lot of Asian Chinese family businesses.

"What happens is that the pioneer automatically assumes his eldest son will take over and carry on his good work," he says.

"Thankfully, in most cases, this is true in the case of the first generation handing over to the second– and the business continues to grow and prosper. The trouble starts in the generations that follow."

The situation is a lot more complicated when the family business involves more than one family or founder.

As was the case with Cheong's own family business.

The Wen Ken Group began life as a traditional Chinese medicine manufacturer established by four different families who shared one thing in common – they were Haka, for which the Chinese characters literally mean "guest families".

Says Wing Kiat: "I learnt one very important lesson early in my business life from the second generation of the Fu family – one I share and try to instill into my clients. And that's adherence to the Four Ps principle."

"He wasn't exactly an avid reader of management books and magazines, but was, in his own way, a shrewd strategist. Street smart and a great reader of people and their potential.

"Once satisfied the business was stable, profitable and growing steadily, he – perhaps unwittingly – began to keep an eye out for their successes in the next generation.

Whether by design or by sheer instinct, right at the outset I was influenced by him that a success development process for family business successors is based on four principles:

- Parenting – the key to nurturing good successors starts with parents who inculcate values from an early age – values of hard work, honesty, integrity and useful observation.
- Preparation – successors should prepare themselves, through education and experience, to be stewards, even if that experience is outside of the family company.
- Passion – rather than coercing unwilling successors, it is important to match passion with the business.

- Patience – successors need to be patiently nurtured and, in turn, they need to be patient with family, too.

Says Cheong: "On top of the normal business and industry life-cycle transitions, family business leaders have three added transitions that are specific to their business. How they are handled could be critical to the company's survival.

- The founder's transition: the personal development of the founder to assume the different roles and responsibilities demanded at various stages of the company's history.
- The firm's transition: the move from the simple, product-driven structure to organizational maturity and greater professionalism.
- The family's transition: the complex problems associated with management success from one generation to the next.

"Strategic planning consists of:

- ADDRESSING the critical issues relating to family involvement with the business.
- ESTABLISHING a family council to provides forum in which family members can air their views and concerns, and which allows them to take part in policy making.
- DEVELOPING, in writing, a statement of the family's values and policies – more or less the family's 'constitution'.
- MONITORING the family's progress and maintaining regular communication through periodic meetings.

"At first glance, this is largely a 'process' – a necessary process because there are no hard-and-fast rules, right or wrong answers since every business differs from the next, despite being in the same industry or market segment."

Planning to pass the baton is never an easy task. Identifying, grooming and transferring management authority to the selected heir is often complex – so much so there is a tendency to put this into the 'too hard' basket.

Quite apart from increasing the likelihood of family conflict – some family members will have different ideas from others – failure to plan for a smooth transfer is plainly bad business; it can create critical problems and inefficiencies for the business, threatening its very survival.

Grooming the next generation to take over is common sense. Proprietary knowledge, contacts and relationships – all crucial to the business – could be lost if the business leader pass away suddenly, for instance, without grooming a successor.

By planning and preparing the next generation to take over, such knowledge, contacts and relationships will live on.

What attributes should the succeeding business leader have? In my opinion, these need to be calibrated according to the needs and aspirations of the business family at different stages of growth and development.

“Successors need not be the most intelligent among the family talent inventory; rather the most suitable successor would score highly in my OLIVE test,” says Cheong, famous for his acronyms, maxims and axioms that simply describe and define his management principles.

What is OLIVE? Simply put:

- O – Open-Minded. Accepts new ideas and the different opinions of both family and non-family members.
- L – Learned. T-shaped or M-shaped professional who has one or multiple specialties but is capable of integrating other disciplines
- I – Independent. In thought and decision-making under pressure in family and business.
- V – Vigilant. Able to adapt to fast-changing political, economic, social and technological environments.
- E – Energetic. In leading family and management to face short, medium and long-term challenges.

Essentially, there are two roles for family business leaders – the entrepreneur and the trustee.

Says Cheong: “The entrepreneur is about growth, expansion into new frontiers, perhaps even risk taking. His aim would be to increase the company’s assets, rejuvenate business with new products and services, and invest profits for maximum return.

“The trustee, as the word implies, is a company ‘protector’. His aim is stability, consistency and, dare I say it, predictability. His perceived role is to protect the company’s assets and to ensure shareholders receive dividends.

“What stage is your company in? Has it gone through a decade of growth, of diversification or even expanded overseas? Is it time to step back, consolidate and work on structure and quality management processes to optimize returns?”

These are questions that need to be at the backdrop of successor selection.

While there are no model or boilerplate succession plans, Cheong says there are key features of succession planning that are critical for most family businesses:

- DEVELOP clear and sensible criteria to select a successor
- CLEARLY communicate what the succession plan is and how the successor has been selected.
- USE outside directors or consultants to manage the succession process.

- PROVIDE a designated successor with appropriate training.
- DEVELOP a succession time frame – and stick to it!
- PROVIDE the existing CEO with an opportunity to exit gracefully into some other activity he or she enjoys.

“The key to a successful transition is communication. All family stakeholders need to be on the same page so that when the baton is finally passed on, it is a seamless process. I can’t stress that enough. There’s nothing worse than disgruntled family members unwittingly undermining the management of the business by constant opposition and criticism of the new leader’s decisions.

“One way of overcoming this is to frame a set of agreed criteria for the selection to ensure it is objective. This way we will stave off a free-for-all which, if it occurs, may have long-lasting detrimental effects on the business.”

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