



Passing the torch in family businesses



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Many affluent families in Asia are the result of first-generation entrepreneurs who have built their family enterprises through hard work, immense sacrifice, and sheer determination. As these family businesses continue to grow and prosper, succession

planning becomes essential for business continuity. All too often, this is left to happen organically when in fact family business owners should initiate a structured succession plan that entails having thorough discussions with family members, board members and senior management. Only in this way can the family legacy be preserved with minimal disruptions to business operations when the time for leadership transition comes.

At first glance, succession planning may seem as simple as naming a successor or drafting a will. In reality, it is not something that can be done overnight. With numerous moving parts in the enterprise, they may encounter pitfalls

that can have lasting consequences on both the family and the business. It requires meticulous preparation and well-thought-out action plans to facilitate a seamless transition of management, leadership, and legal ownership of the assets.

How to build a long-lasting legacy?

The foundation of a family business is anchored in its history and values. However, to truly build a long-lasting legacy, family businesses must first

learn to be agile in the face of change. A global survey by KPMG Private Enterprise and the STEP Project Global Consortium (SPGC) found that while it's important for the wealth of family businesses to be passed on properly to the desired beneficiaries, there needs to be a balance between tradition and innovation.

The survey was conducted with family businesses from 80 countries, including Malaysia, to explore the essence of family businesses and to uncover a link between legacies and long-term success in the performance of a family business.

The survey results, published in a report entitled *'Unlocking legacy – The path to superior growth in family businesses'*, found that family businesses tend to take a more strategic approach, such as planning and prioritizing long-term sustainability over short-term results and gains. For family business leaders to ensure that their hard-earned wealth is preserved and properly transferred to their desired beneficiaries and managers, this involves 2 key areas: management succession and ownership succession. Such careful and advanced planning requires a well-thought-out and well-communicated structure.

By planning ahead, it provides certainty and peace of mind, while ensuring a legacy can be preserved through future generations. This approach minimizes the risk of disputes among various stakeholders, including family, and bolsters the stability of the business. The key benefits of early succession planning and implementation encompasses several key aspects, including:

- **Navigating probate proceedings**

When an individual passes on, their properties and assets undergo a probate process, which are often costly and time-consuming. These proceedings, which are publicly held, necessitates legal and professional guidance, the collation of documents, and can extend even beyond a year. If the will faces contestation, the probate process could take even longer, adding to the complexity of settling such proceedings. Throughout this process, the deceased's assets remain inaccessible until the court issues a grant of probate, which allows distribution according to the will or intestacy laws. This process can cause significant financial hardship, burden and inconvenience for family members and beneficiaries, especially if the deceased was the sole breadwinner.

Through early planning, setting up succession planning vehicles such as a trust or foundation can save beneficiaries the time and cost of probate proceedings. It enables an expedited and seamless transition with minimal disruption to the family business, especially those operating in dynamic industries and/or with tight resources that require active management by the named successor.

- **Succession planning and management of the settlor's affairs**

To ensure a seamless flow across generations, succession planning includes early involvement of the next generation in managing family assets and roles. This not only safeguards the business



legacy but nurtures capable leaders down the pipeline. Senior figures can offer guidance and mentorship while they're still active, allowing for necessary adjustments to be made smoothly with minimal disruption. In today's competitive workforce, our research indicates that family businesses with a strong legacy exhibit an advantage in attracting top talents who are often drawn to the values and culture that the business represents. By staying true to their core values while adapting to evolving landscapes, family businesses can build a resilient and sustainable business model without losing sight of their identity and legacy.

In their underlying commitment to deliver high-quality products and/or services, there is a profound sense of pride and belonging within the family enterprise. This dedication extends to upholding a legacy of excellence and quality, which not only cultivates strong customer loyalty but also sets them apart in competitive markets. A strong legacy, coupled with a focus of upholding excellence and quality, can enhance positive brand perception in one's family business.

Furthermore, many family businesses are deeply rooted in their communities, determined to drive positive change through social responsibility. Understanding legacy with a more contemporary view is pivotal for effective decision-making, particularly for a sustainable future. Our research, encompassing 2,683 respondents across various levels of maturity, stability and business stages, forty-three per cent (43%) — which are tied with strong legacies, reported a combination of high business, environmental and social performance. This

reinforces the correlation between the strength of family business legacies and the overall business performance. Whether through charitable contributions, environmental initiatives, or supporting local causes, family businesses see themselves as stewards of their communities, striving to create a positive impact.

By incorporating a well-thought-out succession plan, combined with leveraging trust and reputation, family businesses can rise to the occasion of solidifying their role as pillars of both business excellence and social responsibility across generations.

• **Tax and legal planning**

As family businesses become increasingly mobile, it is imperative for organizations to consider their tax and legal obligations. Through meticulous planning, clear timelines and a comprehensive approach, family businesses can stay abreast and remain compliant with laws and regulations, as well as certain notifications and filing deadlines. Certain types of businesses, such as concessions and business licenses, require immediate attention to legal ownership transfers, whether the transfer occurs during the owners' lifetime (including on retirement), or through inheritance.

The complexity of tax implications necessitates the importance of preparing ahead. By developing clear action plans, family businesses can mitigate uncertainty and ambiguity, as well as ensure smooth operations. Advanced planning can also help ensure tax benefits on the transfer across different scenarios and jurisdictions are optimized, sustaining their prosperity for the long haul.

• **Asset protection**

Long-term sustainability of family businesses hinges on the successful transfer of business assets and family wealth, from one generation to the next. Organizations need to consider the business structure that is well-suited to their needs, as it can either shield their assets or pose as potential liabilities. For example, assets held under personal ownership are much more susceptible to legal judgements and creditors' claims. Unexpected events such as bank guarantees, divisible matrimonial assets, remarriage, claims and court suits by creditors or business partners can disrupt the smooth transition of assets to future generations.

However, injecting personal assets into a succession planning vehicle ensures that ownership is properly vested, insulating assets from potential claims. This strategic approach not only protects the assets but also facilitates their efficient transfer to the intended beneficiaries as per the settlor's wishes. It's a step forward toward securing the continuity of the family business.

• **Privacy**

A well-drafted plan may bypass the probate process, saving time, costs and avoid unnecessary exposure from probate hearings. This allows the current generation to smoothly execute the succession plan, reducing friction and disputes among family members.

As family businesses continue to expand and diversify, effective succession planning requires open communication and regular review to ensure relevance and compliance with prevailing laws and regulations as well as

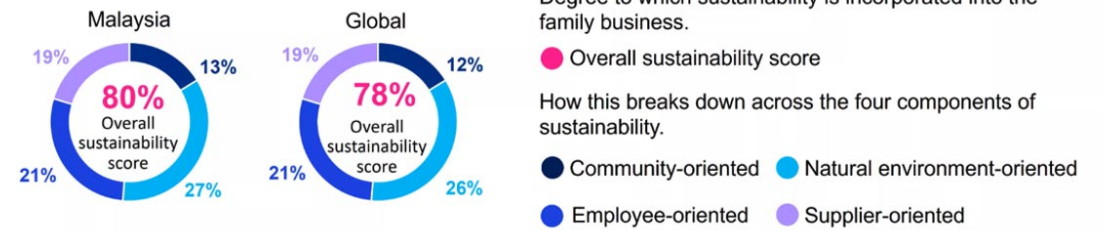
economic and market conditions. With proper planning and consistent monitoring, a family business can endure the test of time, ensuring that the next generation can propel the business forward with minimal disruption and consequences.

A family's legacy may hold a mirror to the past, but it can also be a powerful tool for innovation and growth in family businesses. By harnessing the full potential of their legacy, family businesses can capitalize on their strengths, attract top talents and build brand resilience. Inevitably,

challenges may arise along the way. The successful family businesses are those that have found the right balance of both tradition and innovation anchored on shared values that are embraced through the generations.

Sustainability

The strength of a family business legacy contributes to its sustainability performance across four dimensions: community, environmental, employee and supplier.

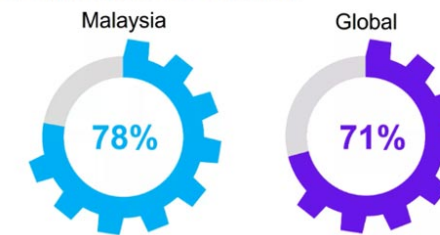


High entrepreneurial legacies contribute to the sustained transgenerational entrepreneurship of the family business, which in turn contributes to sustained, long-term business and sustainability performance. Those with high social legacies tend to have high community and environmental sustainability performance, while high social and material legacies contribute to high employee and supplier sustainability.

1 Unlocking legacy — The path to superior growth in family businesses, KPMG in Malaysia, 16 May 2024

Performance

There is a compelling link between legacy and transgenerational entrepreneurship in guiding the strategic decisions of family businesses and the impact they have on long-term business performance and sustainability.



The above business performance scores were measured across the following seven key components: growth, market share, employees, profitability, return on equity, return on assets and profit margin.

Family businesses in Malaysia with pronounced biological legacies and a commitment to the well-being of employees, suppliers and other people connected with their business tend to have strong business and sustainability performance. In addition, another significant factor contributing to their strong performance is a high level of transgenerational entrepreneurship, which fosters long-term stability and growth across generations.

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