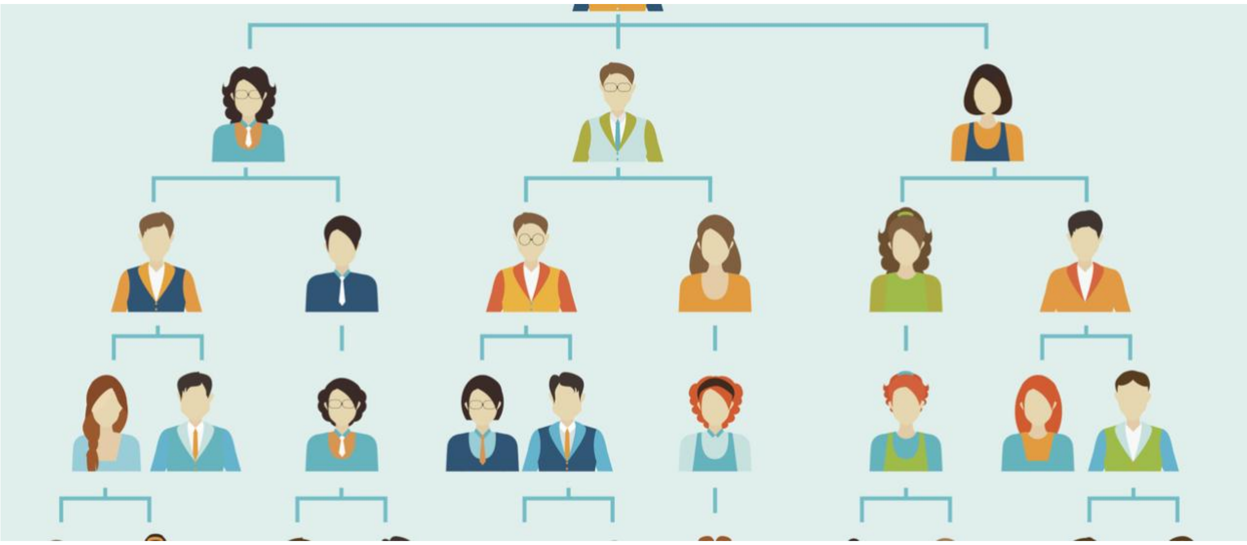
# Four Simple Rules for Succession Planning



By Morten Bennedsen , INSEAD Professor of Economics and Political Science and Brian Henry , INSEAD Research Fellow

**How to keep the business – and the family – running smoothly into the next generation and beyond.**

Family-run businesses represent the future building blocks of China's economy. According to research, over the next few years China can expect to see six million family businesses contribute to its economic growth. Since private enterprise is relatively new in China, many family businesses are still controlled by their original founders who may soon pass their firms on to the next generation. Successful handovers are therefore of huge importance to Chinese family-run firms, and by extension, to the continued growth of the Chinese economy. A badly handled succession can put a family firm in danger, wipe out an entire family's savings and destroy family harmony.

Owners of Chinese family business are often forward-looking in business but very traditional when it comes to family governance. They tend to see their role as one of leading by example – doers not talkers. They are reticent when it comes to sharing their plans for the future with family members. Indeed, long-term planning is almost a taboo subject for them.

**The Yung Kee case**

The owner-manager of the famous Yung Kee Restaurant in Hong Kong is a prime example of a dynamic businessman whose neglect of long-term succession planning proved to be a fatal error. Almost from the moment Kam Shui Fai, owner of the Yung Kee Restaurant, sold his first roast goose in Central Hong Kong in the 1960s, customers began flocking to the eatery. Its reputation, relying purely on word of mouth, soon spread beyond the port city. In 1968, *Fortune* magazine named Yung Kee one of the world's greatest restaurants – the only restaurant serving Chinese cuisine that appeared on the list.

As he got older and his sons joined the business, Kam Shui Fai  never took the time to develop a formal succession plan. Simply keeping up with the ever-growing popularity of the restaurant was a major feat. His first-born son, Kinsen Kam Kwan-sing, started working in the kitchen in his teens, gradually taking over the running of the restaurant. His involvement in the business relieved the pressure on his father, who could count on Kinsen to manage the entire operation, from goose farming to keeping customers happy, and with the same attention to detail as the owner.

Kam's second son preferred to stay out of the kitchen. Instead, Ronald Kam Kwan-lai spent part of his youth earning an engineering degree from a university in Taiwan. Eventually he joined his father's business as the manager of the family's growing portfolio of property investments.

The two brothers never had any need or desire to interact in the day-to-day management of the business since they relied on their father to act as an arbiter for any decisions. The family members met regularly at board meetings to discuss how to invest the fast-growing profits of the business. So when Kam Shui Fai died in 2004, his widow expected her sons to continue as they had in the past.

But she was mistaken. Without their father as a buffer, the two brothers began to disagree on just about everything, inside and outside the kitchen, sowing discord within the family and among employees. While the mother sided with her oldest son, her daughter and third son (who died in 2007) sided with Ronald. Because he was the majority shareholder, Ronald was able to force his older brother out of the restaurant as well as off the board of the family-run holding company.

With his minority shareholding, Kinsen could do little to prevent his ousting from the family business. Worse, Ronald refused to buy out his brother's share for an acceptable price. Believing that he had the law on his side, Kinsen launched a lawsuit to force Ronald to liquidate the parent company of Yung Kee.

Thus began a long, drawn-out court case that brought unwanted media attention to the family and the Yung Kee Restaurant. The restaurant's reviews were no longer raves; Yung Kee lost its precious Michelin star in the meltdown. Worse still, Kinsen died in unexplained circumstances a few years into the legal drama, leaving his two sons to fend for themselves. As for the lawsuit, Hong Kong's top court gave the go-ahead for the parent company to be wound up, and the proceeds divided between the two branches of the family.

Meanwhile, Kinsen's sons have opened up restaurants of their own in Hong Kong, taking some of the best Yung Kee chefs with them. Hardy Kam Shun-yuen, the younger son, won a Michelin star for Kam's Roast Goose four months after its opening in July 2014. "It is a new beginning here," he said, "I focus on continuing my Dad's spirit."

### Four simple rules to activate family succession

1. Founders should understand that each high-potential family member is a unique human being with strengths and weaknesses. If they have more than one child, they should avoid treating all children as if they were all alike.

2. Founders should develop long-term succession plans, no matter how small the business. They should stop, look and listen to their heirs, note their strengths and weaknesses both as individuals and as a team players, and then drive the succession process based on their observations.

3. Founders should embed an entrepreneurial attitude within the family and the business by creating formal planning structures and written rules about succession. If some aspects of the business require different skills and

competences, job profiles should be drawn up and matched with the appropriate CVs of family members. Such expectations drive young family members to acquire the right skills for a job and provide for a transparent transfer of management and ownership.

4. Finally, founders should create an organisational culture that reflects the firm's family assets, heritage and identity. By establishing a family-based culture, founders can ensure that their businesses can survive long after they retire. It is essential stepping stone for future generations.

It is unlikely that any of these four simple rules were applied during the decades that Kam Shui Fai was roasting goose in his kitchen, with dramatic consequences for the family and ultimately the Yung Kee Restaurant. By following a proactive, structured approach to long-term succession planning, founders can ensure that their families and businesses will survive for generations to come.

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