

## All in the family is the business model

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Zong Qinghou, founder of China's largest beverage company, Hangzhou Wahaha Group, with his daughter Zong Fuli at a business event. Provided to China Daily

Firms that have flourished over generations form the backbone of Asia's economic growth

In 1873, Eu Kong left his hometown in southern China to seek his fortune in Malaysia. On arrival, he set up a shop that he named Yan Sang - which means caring for mankind in Chinese - supplying Chinese medicine and herbs.

Eu passed the mantle of this small firm on to his only son, Eu Tong Sen, who continued to expand the business, adding the family name to the brand. Today, Eu Yan Sang International is a listed entity in Singapore and Hong Kong.

Eu Yan Sang is far from the only family business to become a major international concern. A growing number of family-owned businesses is boosting Asia's economy today, particularly in the private sector.

The Forbes China billionaires list over the past few years has included many self-made tycoons who retain tight control over their business empires. They include Wang Jianlin, reputedly the richest man in the Chinese mainland and chairman of Wanda Group; Zong Qinghou, founder of Hangzhou Wahaha Group; He Xiangjian, founder of Midea Group; and Chan Laiwa of Fu Wah International.

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Wanda owns 75 department stores, 85 shopping plazas and 51 five-star hotels. Hangzhou Wahaha is China's largest homegrown beverage company, while Midea Group is one of the country's largest manufacturers of electrical appliances, employing some 135,000 people in China and overseas.

The family of another Chinese billionaire, Yang Guoqiang, including his daughter, Yang Huiyan, owns the Guangdong-based property developer Country Garden, which listed on the Hong Kong Stock Exchange in 2007.

However, the long list of family-firm billionaires does not end here. China has seen massive growth in private enterprises over the last 30 years, with family members working together to create some of the country's most successful businesses.

It is said that family businesses are China's invisible economic engine.

"Family values and Asian culture are significant factors in the perpetuation of families in business across generations," Alexis du Roy de Blicquy, CEO of Family Business Network International, says. "Entrepreneurs, especially those in China, are now in the process of grooming or handing over the reins to the next generation."

He adds that family businesses are bound by strong values and common purpose in profit.

According to Hurun Report, a China-based magazine and research firm that produces an annual list of China's wealthiest people, so far this year the country added 41 new billionaires, largely from family businesses, to consolidate its second position with 358 billionaires.

The Hurun list includes family business owners like Liu Yonghao, chairman of agribusiness New Hope Group, and property tycoon Wu Yajun.

A study by the All-China Federation of Industry and Commerce found that 85.4 percent of China's private companies are family businesses in which an individual or a family controls at least a 50 percent stake. The study was run in collaboration with Sun Yat-sen University, Zhejiang University and family-controlled sauces giant Lee Kum Kee.

Experts say that by guaranteeing market supply, encouraging investment and increasing the country's exports, family businesses have greatly contributed to China's rapid economic growth.

This picture is reflected across much of the rest of Asia.

Across the 10 major Asian markets - the Chinese mainland, Hong Kong, India, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand - nearly half of all the listed companies are family-owned.

To further reinforce the point, Hay Group, a global management consulting firm, indicates that family firms have 32 percent of total market capitalization in these 10 Asian markets.

"Some of the oldest family businesses in the world are found in Japan and India," says Angelyn Sng, director of membership and programs at FBN Asia, a regional chapter of FBN International.

Sng explains that there are numerous examples of family businesses in Southeast Asia being run by members of the fourth generation.

Singapore companies Eu Yan Sang, which provides traditional Chinese medicines, and jeweler BP de Silva both celebrated their 140th anniversaries last year. Meanwhile, Royal Selangor, a Malaysian pewter manufacturer, will be 130 years old in 2015.

One of the oldest family businesses in the world is the Hoshi Ryyokan hotel in Japan currently being managed by what is claimed to be the 46th generation of its founding family.

India, however, is home to the highest number of family businesses in the region, with family firms accounting for 67 percent of all listed companies.

According to Credit Suisse, a global financial services company, family businesses are a key source of private wealth creation in Asia and form the backbone of the region's economies.

The study Asian Family Businesses analyzed the performance of more than 3,500 publicly listed family businesses in the Chinese mainland, Hong Kong, India, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand.

In seven of these 10 locations it was found that between 2000 and 2010, family businesses outperformed non-family-run companies. Family firms in the Chinese mainland, Malaysia, Singapore and South Korea proved the strongest at outperforming their local competitors.

A survey by PricewaterhouseCoopers, Family firm: A Resilient Model for the 21st Century, shows that family companies are robust, vigorous and successful. It says family firms are ambitious, entrepreneurial and delivering solid profits, even in the continued uncertain economic environment.

Family businesses also make a substantial but undervalued contribution to stability and growth.

The report says that with longer-term thinking and a broader perspective, family firms are in many ways the epitome of "patient capital". Family businesses are willing to invest for the long term, and do not suffer from the constraints imposed on their listed competitors by the quarterly reporting cycle and the need for quick returns.

The report also indicates that family firms feel a stronger sense of responsibility to create jobs, and will make more strenuous efforts than other companies to keep their staff, even during tough times, translating into greater loyalty and commitment from those they employ.

"In some Asian economies, job creation for locals is spurred by thriving family businesses," says Ng Siew Quan, private client services leader at PwC Singapore. "Family firms are generally more resilient to external variables that impact the economy. When a crisis hits, family business owners are in better capacity and have the authority to act decisively and sometimes in a more flexible manner. Recovery is relatively faster too."

He adds that the family business long-term approach and wider perspective in the business, coupled with tighter management of funds, provide some buffer to the consequences that Asian economies face in an economic downturn.

Ng also believes that employment should not be the only factor in evaluating family firms' contribution to the economy.

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The other pertinent point creating success for family firms is "a more personal approach to business based on trust". Family firms are notable for their strength of culture and values, and this belief grows stronger with time.

Experts make clear that family firms win business because they are closer to their customers, and have a more personal relationship with them - indeed that they are chosen precisely because they are not multinationals.

A KPMG report, Performers: Resilient, Adaptable, Sustainable, states that family values have a major impact on both how the business is operated and the sense of belonging by many who work there. Family businesses are often perceived as having a positive, nurturing and family-like environment. Indeed, the report says that family firms' employees may feel a sense of ownership of the organization.

Nevertheless, the success of family businesses depends largely on their ability to transfer the mantle from one generation to the next. The issue of succession is increasingly significant in Asia, where family businesses are younger than their US and European counterparts.

The KPMG report indicates that "achieving a successful transition between generations has often been viewed as an indicator of success to many families in business".

"Asian businesses are built on strong family ethos and a deep sense of family responsibilities that pass from one generation to another in preserving family values and wealth, so successful transition in Asian business families is critical to continued success and sustainability," says Annie Koh, associate professor at Singapore Management University.

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