

Asian Business Families Governance: Crossing the Chasm for Inter-Generational Change



Professor Annie Koh

Vice President, Office of Business Development

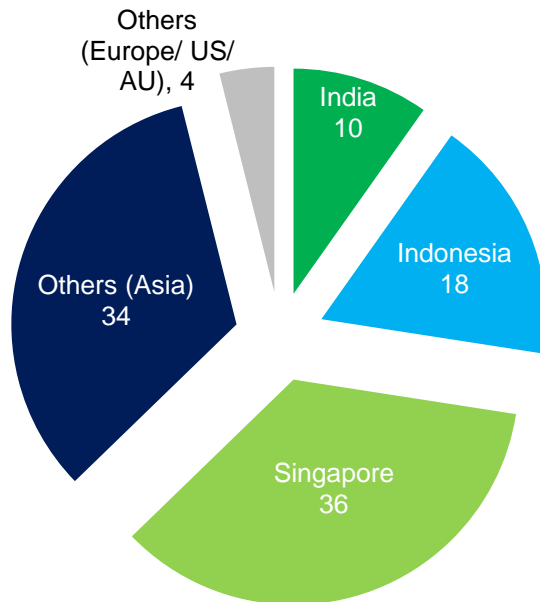
Academic Director, Business Families Institute@Singapore Management University

26 May 2015

About the Report

- 102 Business Families participated in the online Research Survey from mid-December to mid-April 2015.
- The Research Survey is designed to assess the perceptions and sentiments of business families towards the family and the business. The objective of the Research Survey is to examine how families view their generational succession, review what they want to do and have begun to do, and how they see the future.

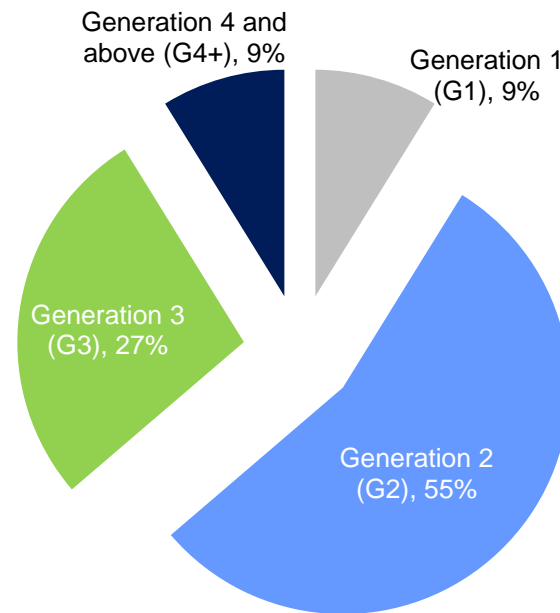
Country



n=102

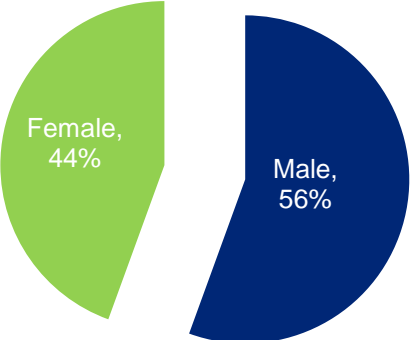
Others (Asia) – Taiwan (7), Malaysia (6), Philippines (6), Myanmar (6), Thailand (4), China (2), Hong Kong (2), Vietnam (1)

Generation of business

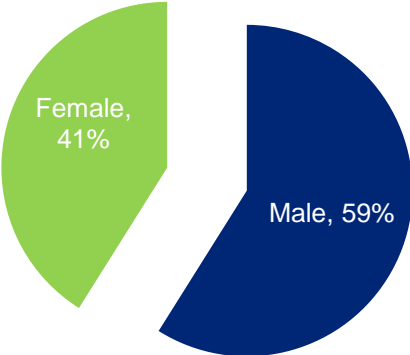


Profile of Business Families

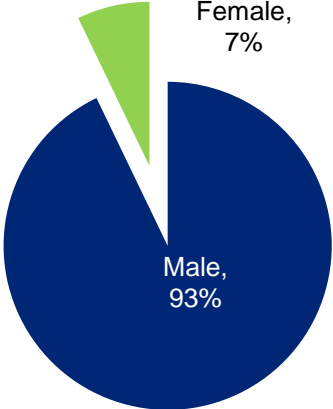
Gender (Generation 1)



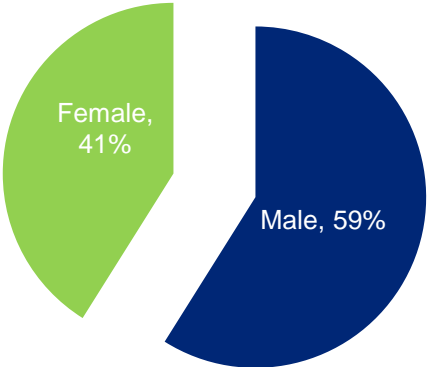
Gender (Generation 2)



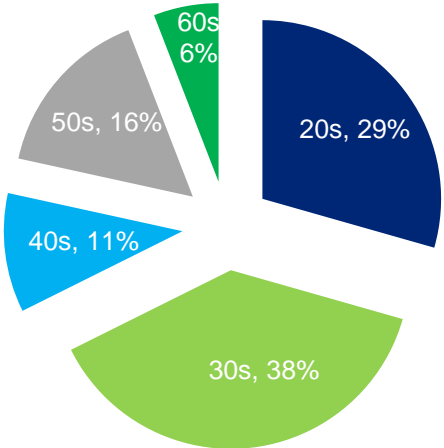
Gender (Generation 3)



Gender (Generation 4 and above)



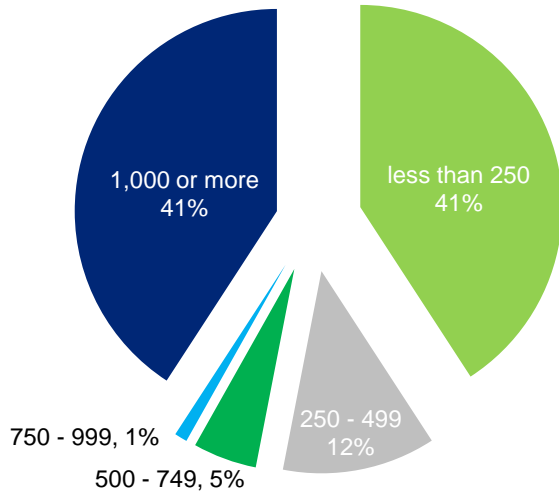
Age



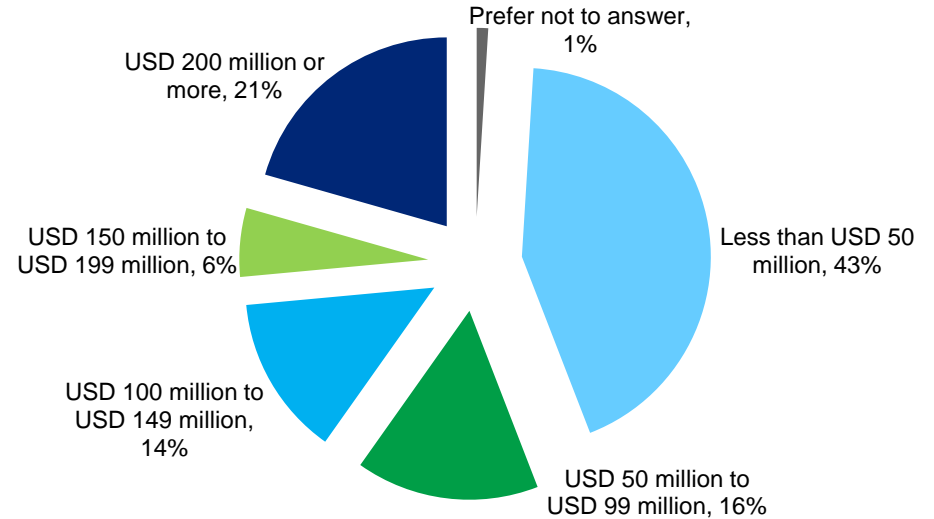
*Percentage figures may not add up to 100% due to either rounding or multiple options

Profile of Business Families

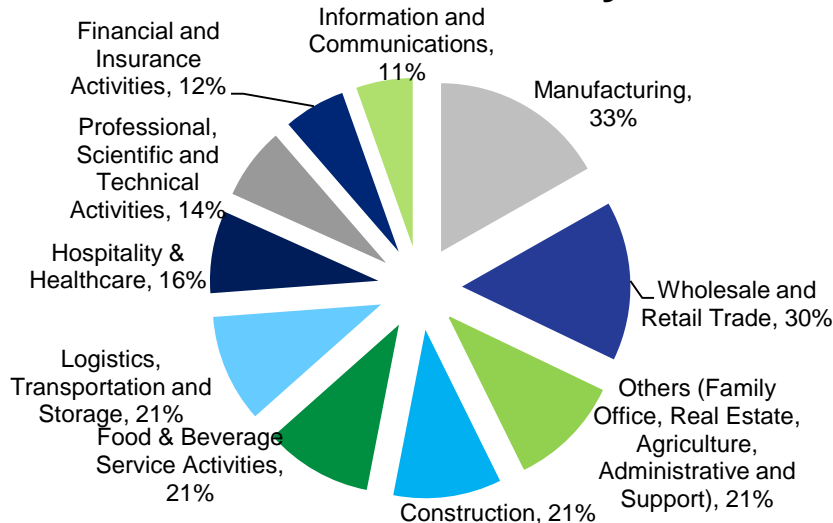
Number of employees



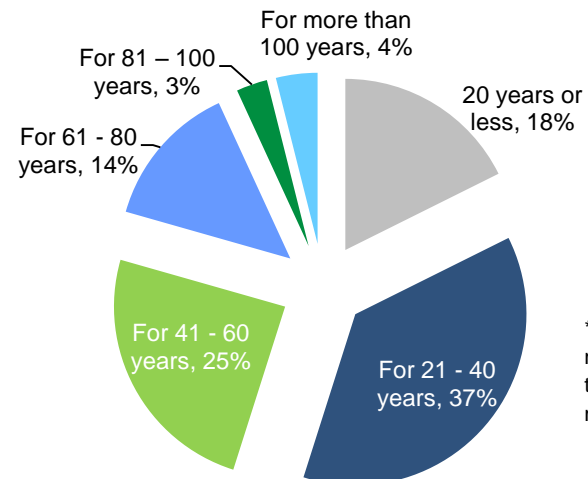
Estimated revenue before taxes for 2014



Business Industry



Years of operation



*Percentage figures may not add up to 100% due to either rounding or multiple options

Definition of Business Family

Family – By at least two (2) **Business Family Members** (defined below)

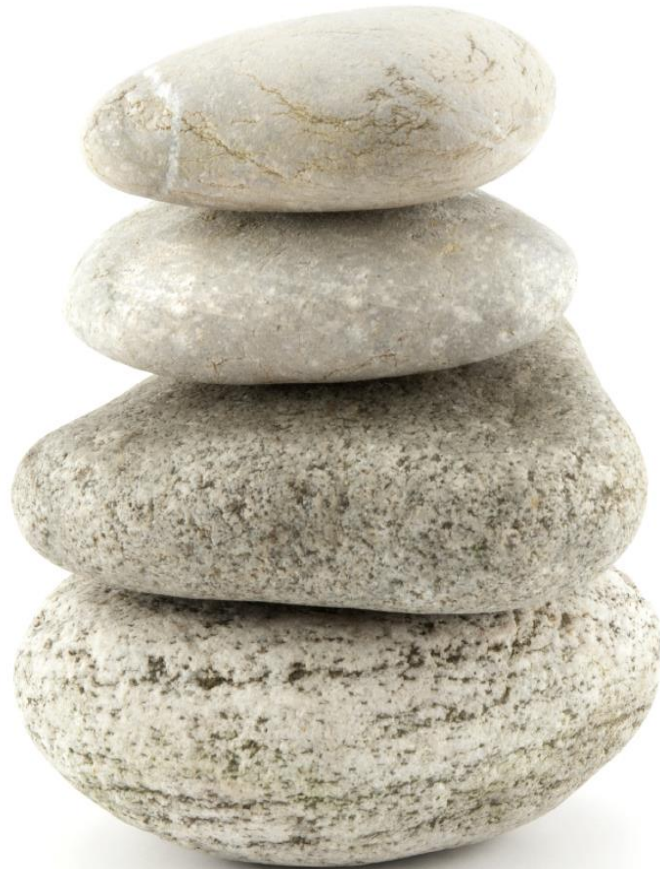
- a) Immediate Family Member – (i) Husband and Wife, (ii) Parent and Child, and/or (iii) Siblings, and/or
- b) Extended Family Member – (i) Uncles / Aunties and Nephews / Nieces, (ii) Cousins and/or (iii) In-Laws

AND

Business Involvement – Through Ownership and/or Management

- a) The Family Members collectively own more than 50% of the voting shares of the business, and/or
- b) At least two Family Members manage the business as Executive Directors, CEOs, Senior Management, etc.

Summary of Key Findings

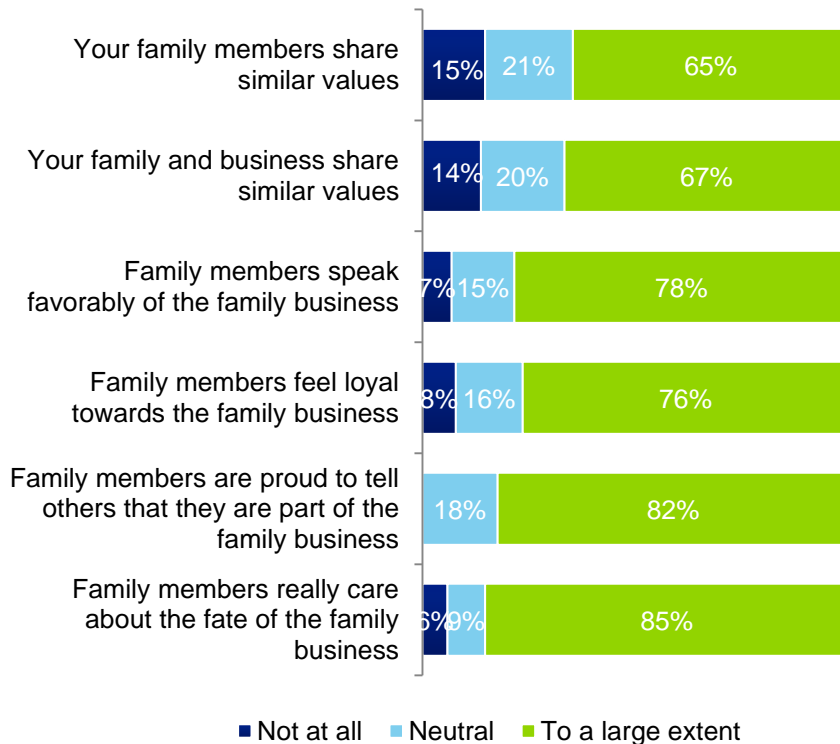


- **Culture and Values**
- **Commitment to Family and Corporate Governance**
- **Changes in Family Governance Practices**
- **Continuity and Succession**

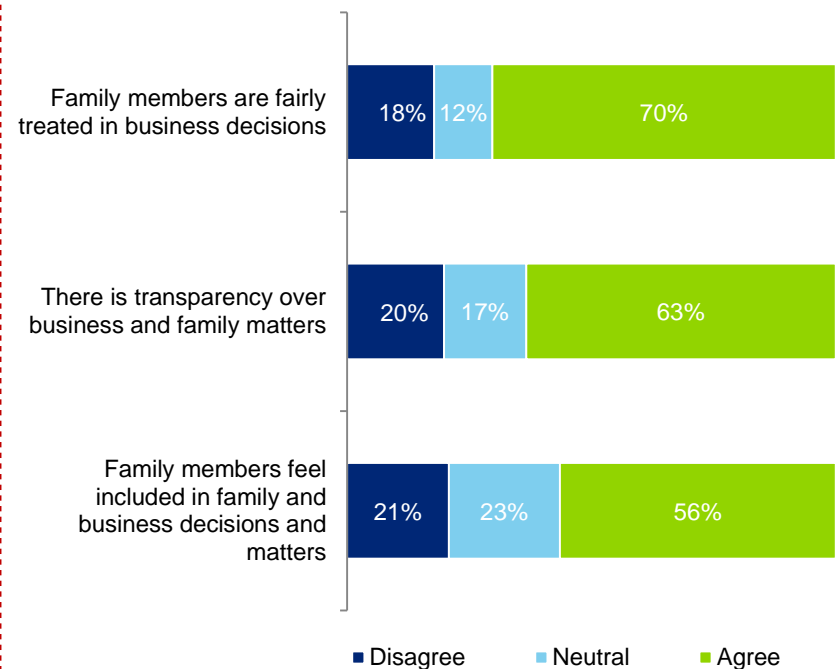
Key Finding 1: Culture and Values

Asian business families have positive attitudes towards the family and the business.

Family Member's Attitudes, Values and Loyalty



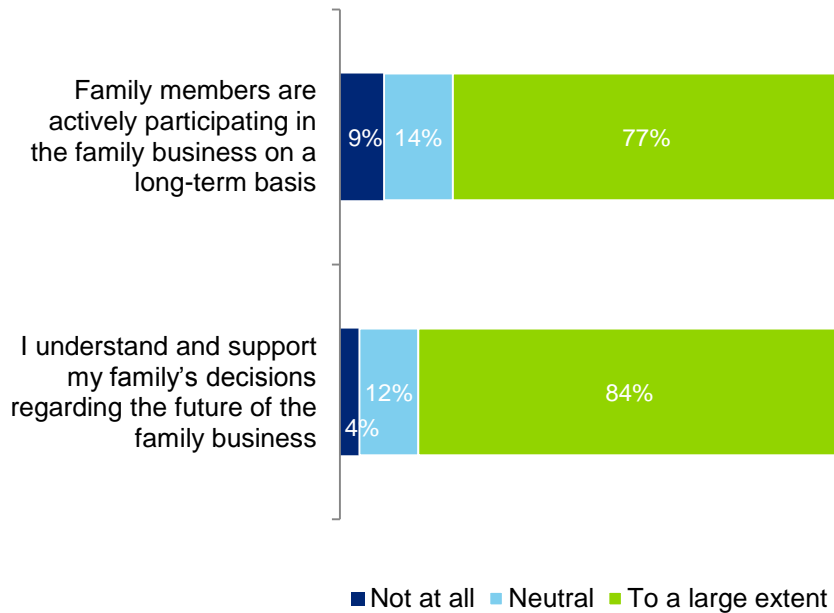
Fairness, Transparency and Level of Involvement of Family Members



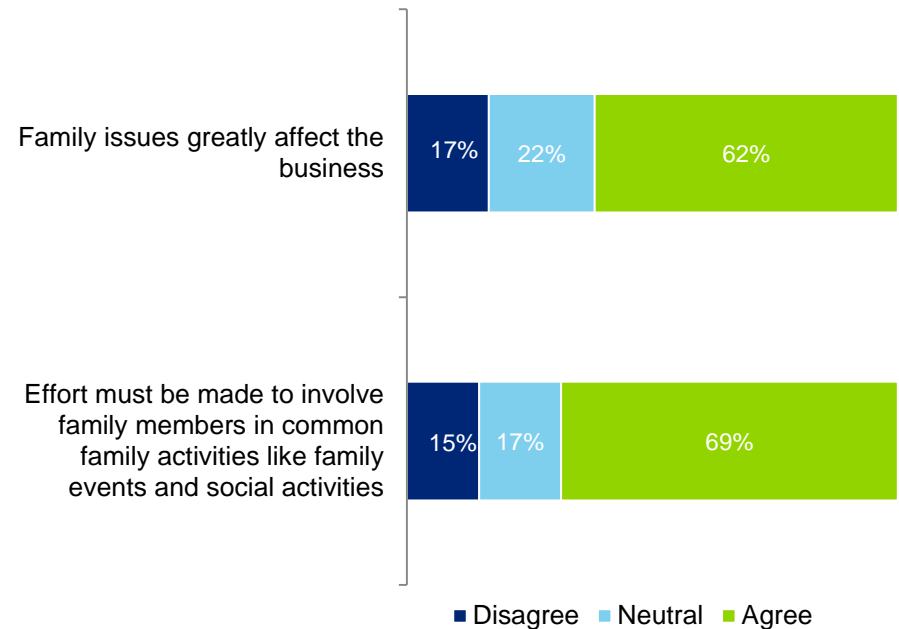
Key Finding 1: Culture and Values

Asian business family members are committed business owners and see themselves as responsible stewards of the family business.

Family Member's Commitment Towards the Business



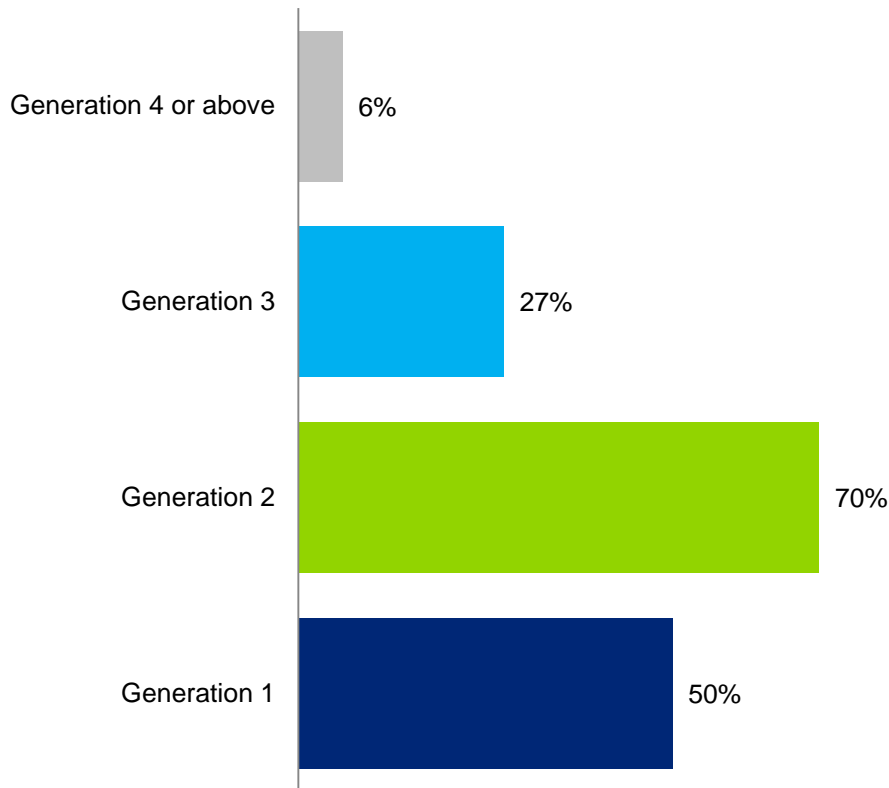
Family's Level of Agreement in the Following Statements



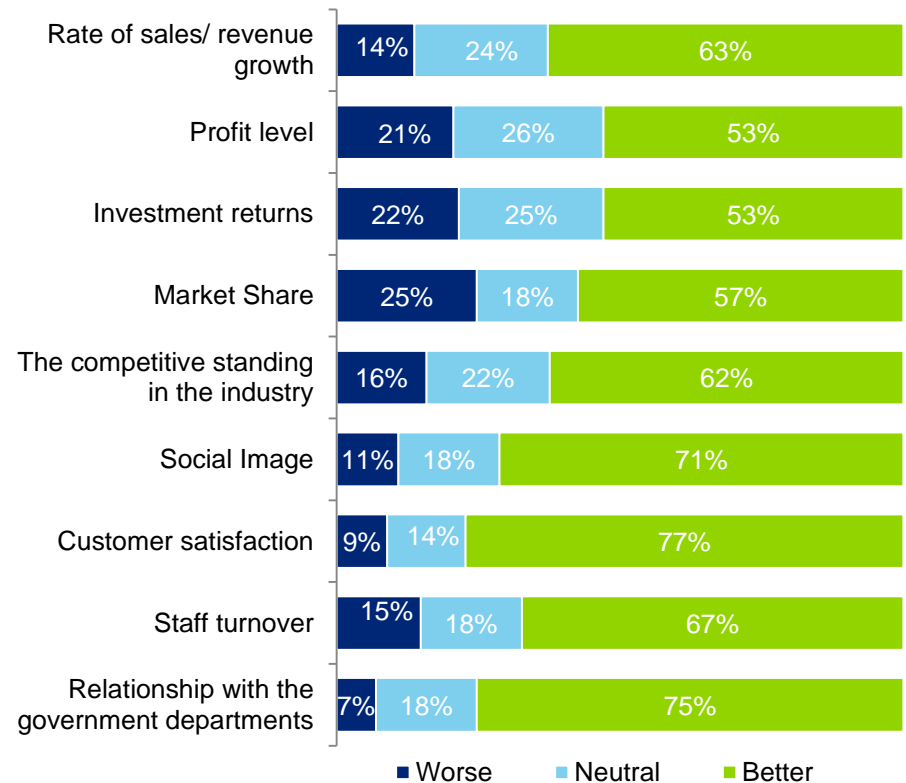
Key Finding 1: Culture and Values

Asian business families remain resilient and competitive and perceive themselves as doing better than competitors.

Which generation of the family manages the business?



How would you compare the performance of your business against major competitors in your industry in the following areas in the last 3 years?



Business Family Interviews [Singapore | India]

BP de SILVA
ESTABLISHED 1872

“Pursuing ideas that extend beyond the individual is what aligns shareholders to work together. If we are fighting together for something bigger than us all, the small issues simply become sideshows in a grander play where we have to perform for the greater good. None of us have done anything to earn our initial positions, simply improbable benefactors of some cosmic roll of dice. Therefore, we need to prove ourselves where we can, and admit where we fall short. That blunt honesty, I think is the core value that will serve the group well in the long run”.

– **Mr Navin Amarasuriya**, 5th Generation



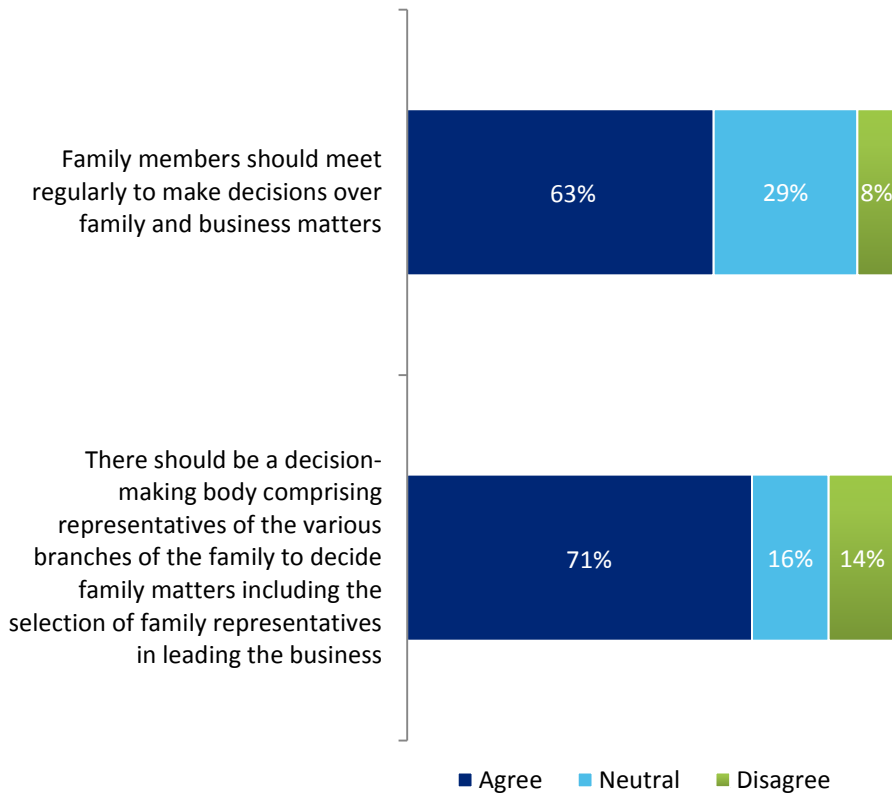
“As a family, we have imbibed a set of common values which we dutifully follow. We place great importance on honesty, openness, dedication, relationship development and humility. Whether I exude these powerful values, time is yet to tell, but I am conscious of the generations before me being innately defined by them.”

– **Mr Ankesh Shakra**, 3rd Generation

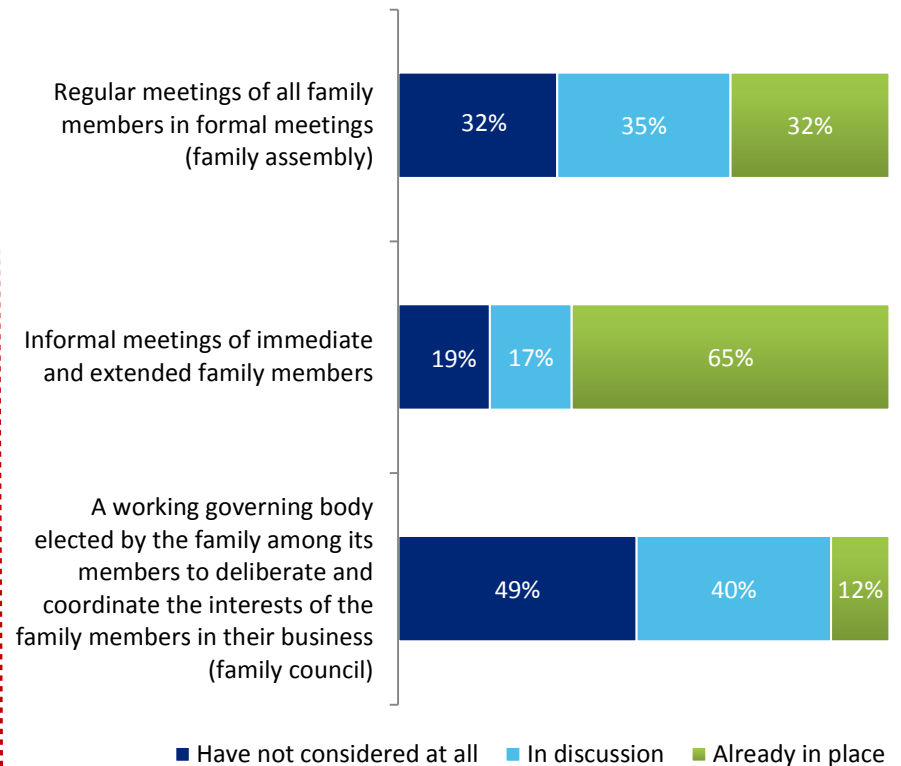
Key Finding 2: Commitment to Family and Corporate Governance

The majority of Asian business families demonstrate the desire for formal family and corporate governance mechanisms. However, family governance practices are in the early stage of development and adoption.

Desire for Formal Governance



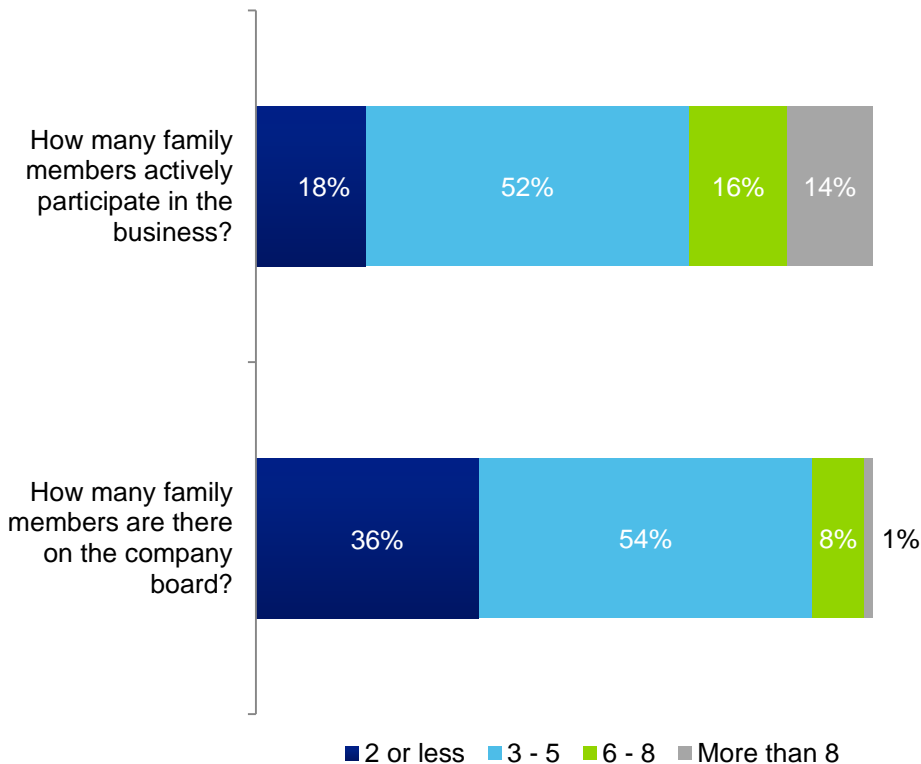
Please indicate the degree that you see your family using each of these features



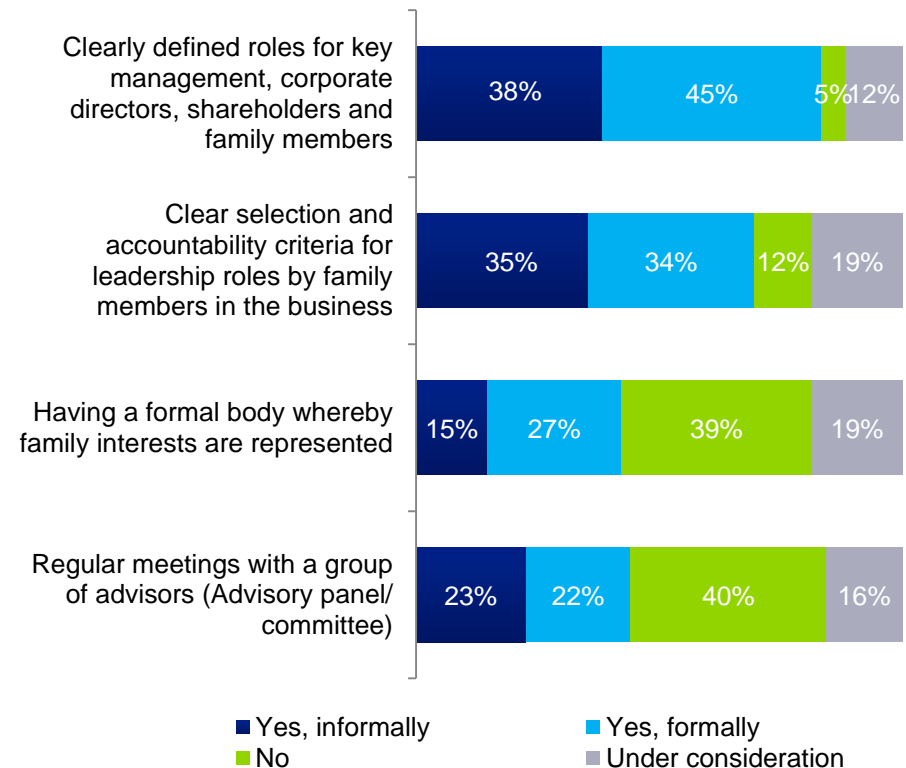
Key Finding 2: Commitment to Family and Corporate Governance

The current ownership and governance structures are simple with 3-5 immediate or extended family members actively participating and serving as directors of the corporate board.

Family Members in the Business



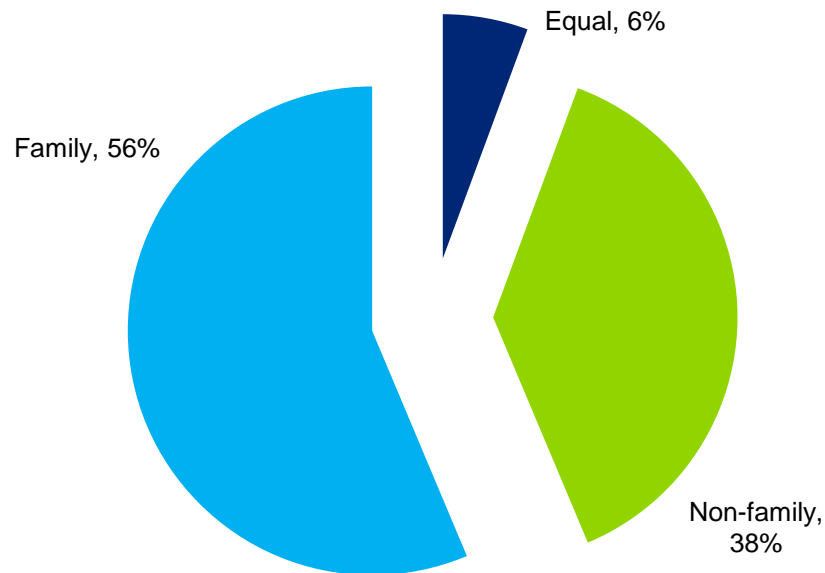
Does the business have the following in place?



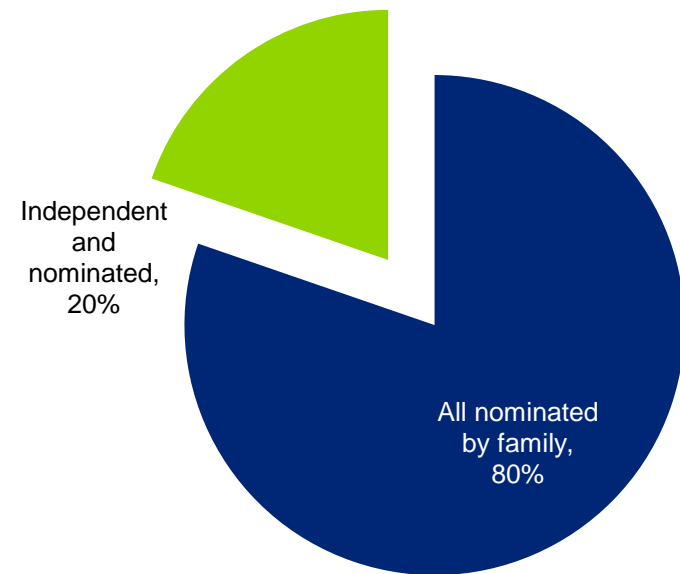
Key Finding 2: Commitment to Family and Corporate Governance

Business families tend to have more family members than non-family members on the Corporate Board of the family business.

Number of Family vs Non-Family on the Corporate Board



How many non-family (external) members nominated by the family are on the Board?



Business Family Interviews [Hong Kong | Philippines]



“The basic principle of Chinese family is for elders to look after their kids and the kids to respect their elders in return. In the olden days, our ancestors gathered together once every full moon to share their interests and difficulties. When conflicts arose, elders had the right to call meetings to resolve the problems. We also adopted this basic principle. Our family governance tells us to give more and complain less.”

– **Dr Wong Kam Shing**, 2nd Generation



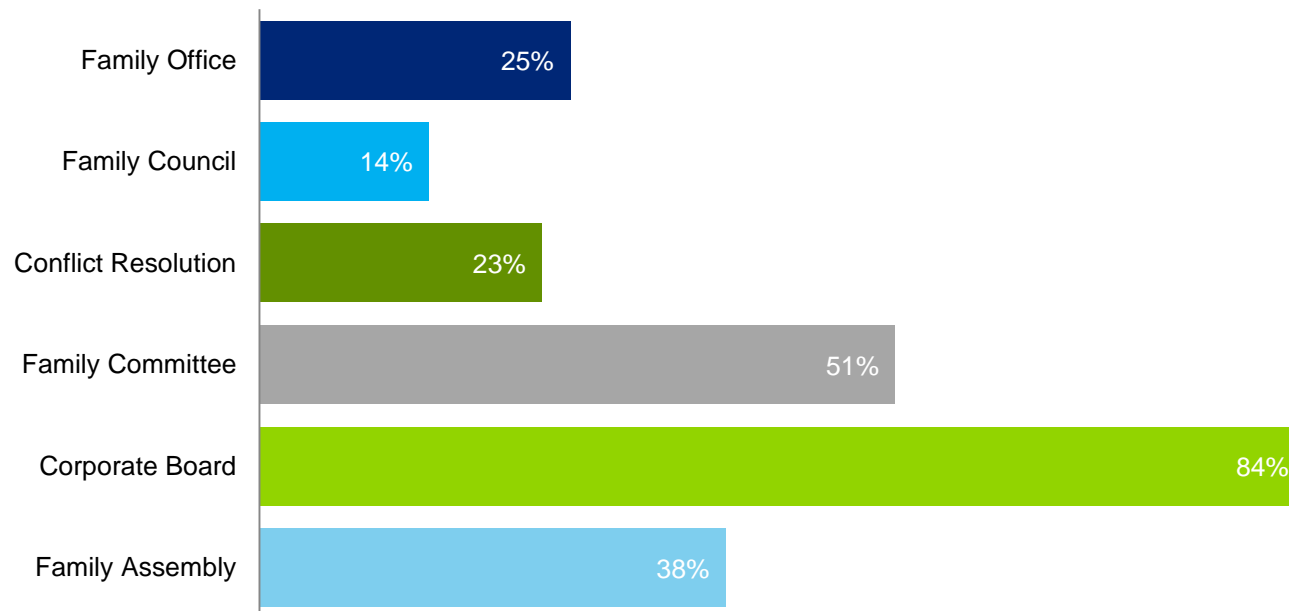
“My father inculcated in us that what is given to us can also be taken away. Hence, you must treasure the gift and be a good steward of that gift. With the fear of dissolution of the family business, the most worthwhile investment that the family made was getting a trusted nonfamily advisor to help the family develop the governance blueprint. For the business we currently have weekly management meeting as well as quarterly board meeting. In addition, we have regular Family Council and Sibling Council meetings to provide a venue to discuss family issues.”

– **Mr Christopher Po**, 2nd Generation

Key Finding 3: Changes in Family Governance Practices

The most commonly used forms of family governance are the Family Assembly, Family Committee, and Corporate Board of Directors for the business.

Governance Practices Currently in Place

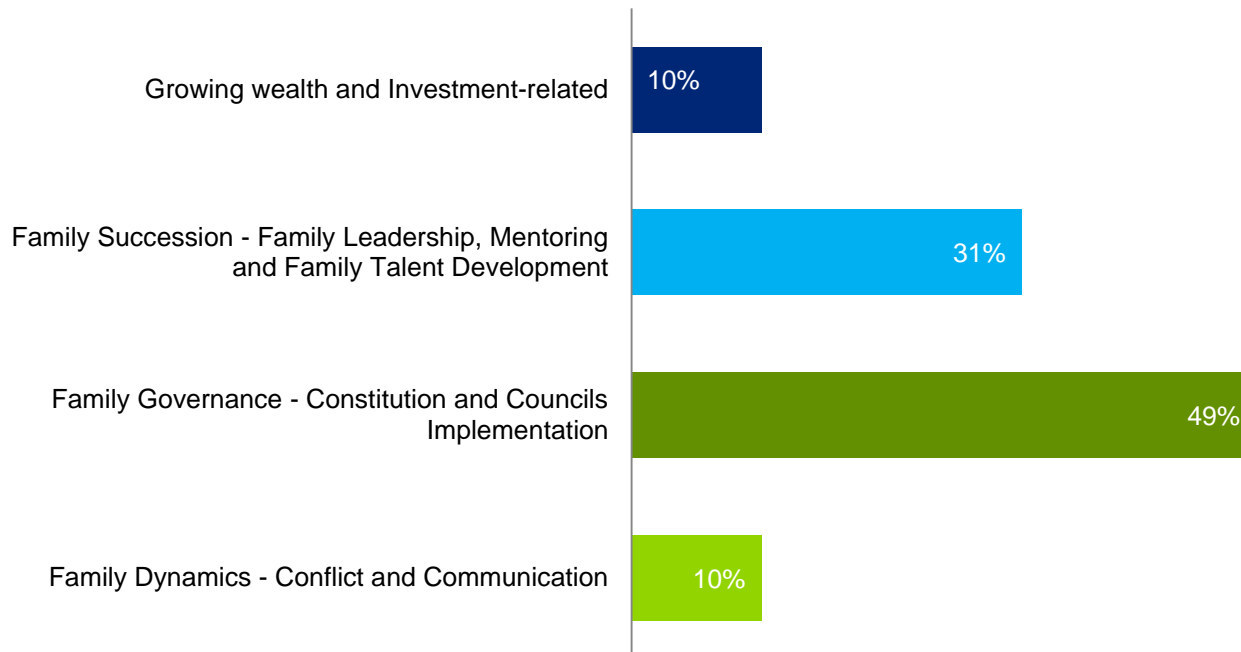


*Percentage figures may not add up to 100% as multiple options were allowed

Key Finding 3: Changes in Family Governance Practices

As 83% of the Asian family members surveyed are second and third generation family members, they are not fully aware of the different family governance options available. Hence, they may need to seek governance-related advice from trusted non-family advisors

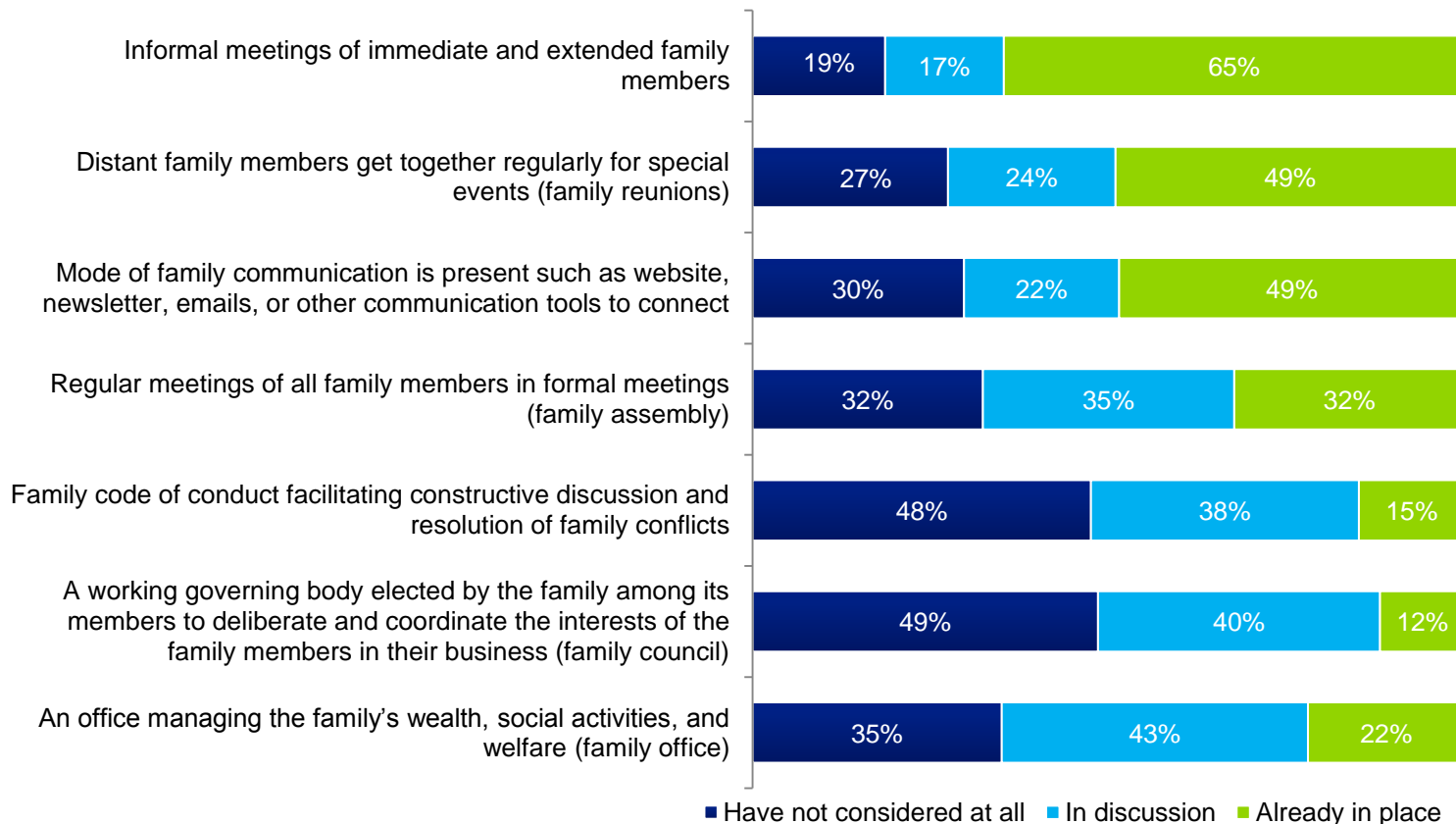
What type of training and support do you require in the short to medium term (1-5 years)?



Key Finding 3: Changes in Family Governance Practices

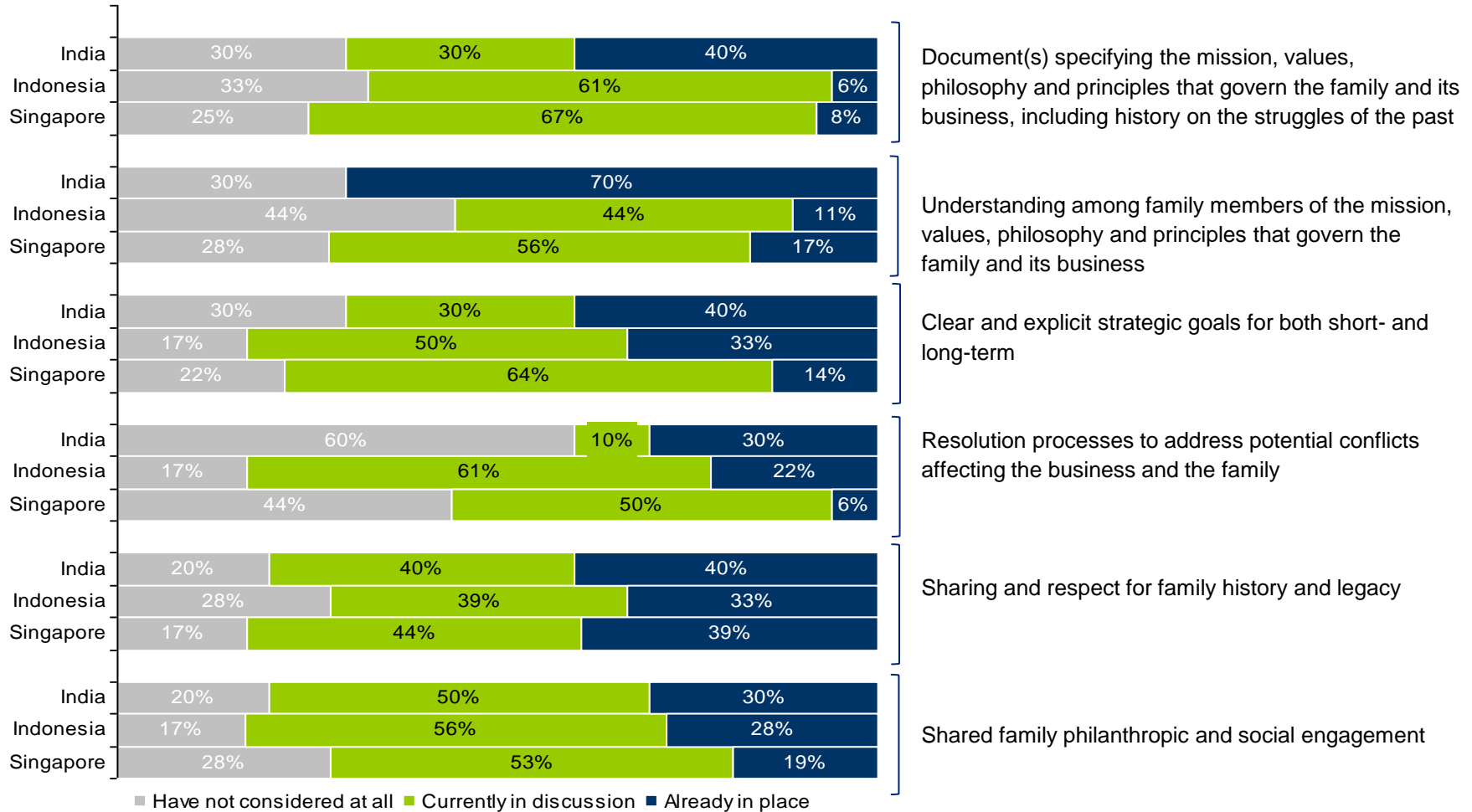
Informal meetings (65%), family reunions (49%), and presence of different modes of communication (49%) are commonly used informal family governance practices by Asian business families.

Please indicate the degree that you see your family using each of these features



Key Finding 3: Changes in Family Governance Practices

In comparison to Indonesia and Singapore, business families from India are ahead in terms of governance practices.



Business Family Interviews [Taiwan | India]

台湾水泥 T'cement

“I observed that because we are the market leader in Taiwan, we are becoming too complacent. Hence, I strategically re-engineered the company to take on a proactively changing culture based on my purported value statement ‘Embrace Change, and Learn Enthusiastically’ (拥抱改变, 热情学习). While the Koo Family shall remain as the largest shareholder of the company, having qualified and professional managers managing the business will help the business to succeed in achieving its sustained and profitable growth.”

– **Mr Leslie Koo**, 2nd Generation



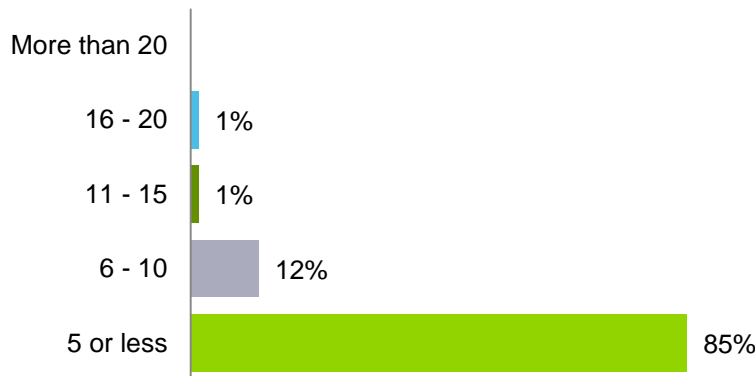
We do not have formal family governance process yet because my family is small and still very much connected. However, as I expect Indorama to remain family-owned and controlled but run by trusted professional managers, I would like to concentrate on making better systems and processes. I would like to work more on our governance and compliance standards, to mitigate any potential adverse reputational risks”

- **Mr Amit Lohia**, 3rd Generation

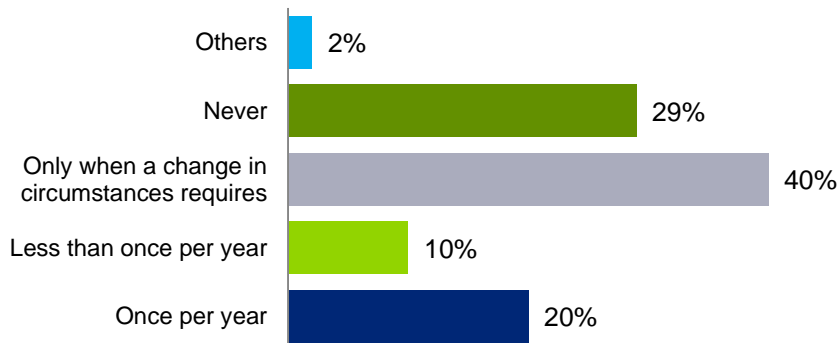
Key Finding 4: Continuity and Succession

Asian family business owners desire to build sustainable business for the future and prepare next generation to successfully manage the business.

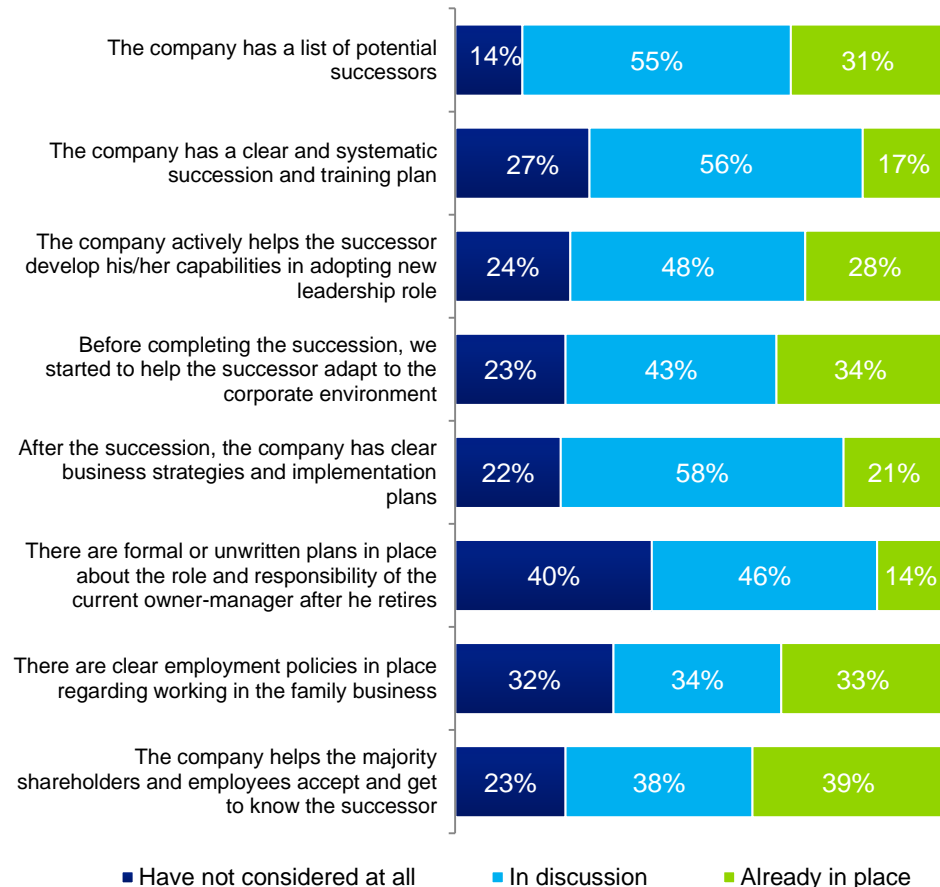
When do you expect the family to undertake succession? (in years)



How often does the full board review CEO succession plans?



In relation to the company, please rate the following according to these current business situation

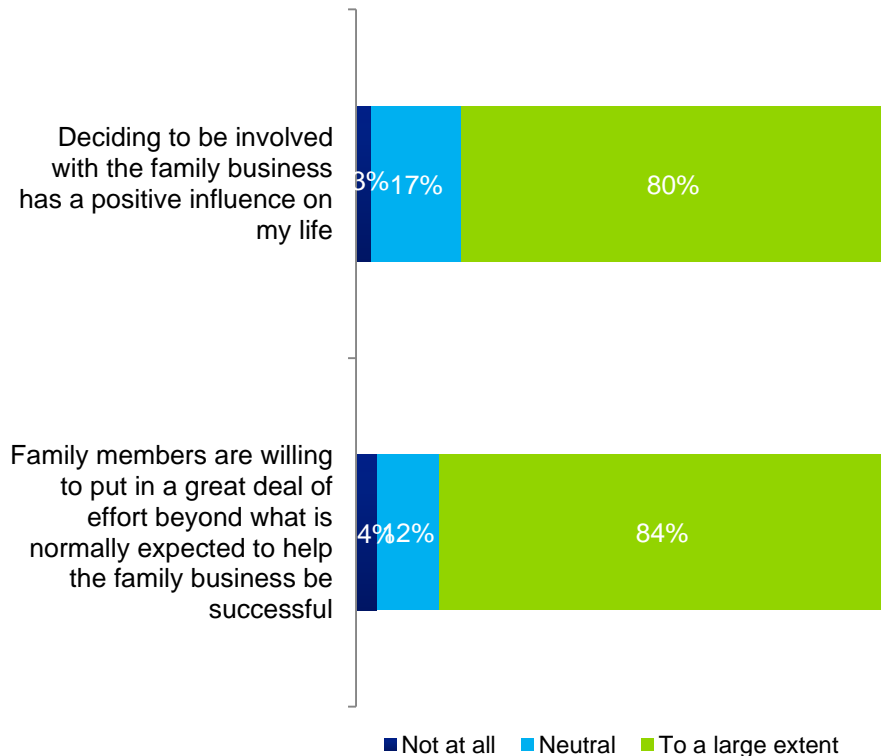


■ Have not considered at all ■ In discussion ■ Already in place

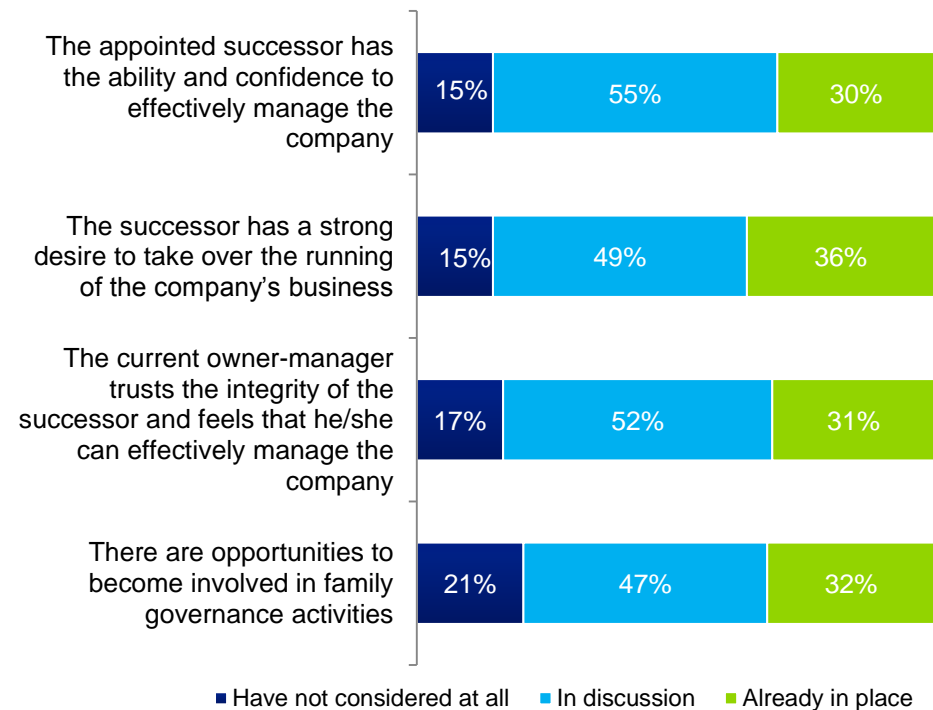
Key Finding 4: Continuity and Succession

The next generations are committed to effectively manage the company and are willing to put in a great deal of effort beyond what is normally expected in helping the family business succeed.

Please rate the following statements



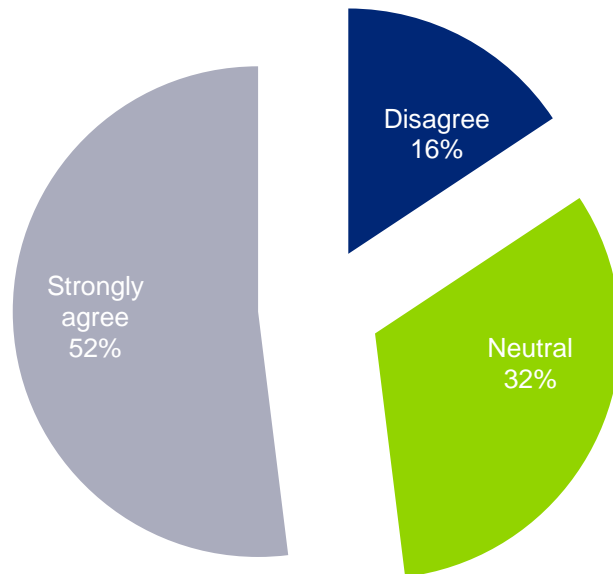
In relation to the company, please rate the following according to the current business situation



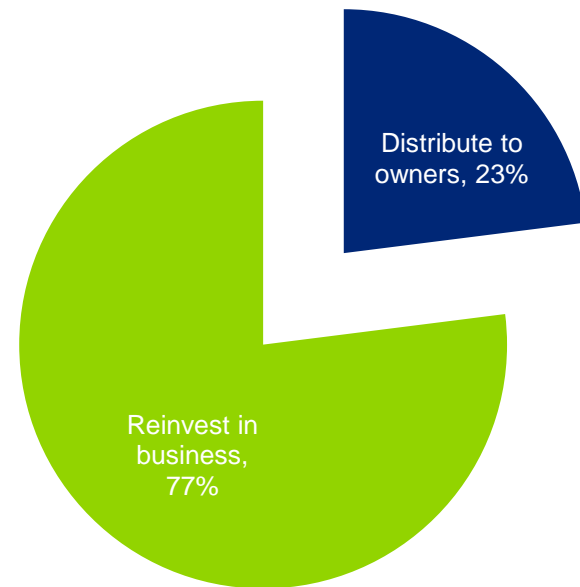
Key Finding 4: Continuity and Succession

Asian business families bank on the future of their family businesses with 77% of the surveyed families reinvesting the earnings back into the business.

The Business Takes Priority When the Family Makes Decision



What does your family do with the profits?



Business Family Interviews [Indonesia | Singapore]



“We constantly revisit our Vision and Mission. This is important to align the management, so to have clear strategies and objectives. When it comes to making decisions regarding the family and the business, the family discusses together and certain matter will be decided by an older sibling as the leader in charge. If we cannot resolve disagreements within the family, we seek the input from our non-family Board members to shed more light”

– Ms Christina Lim, 3rd Generation

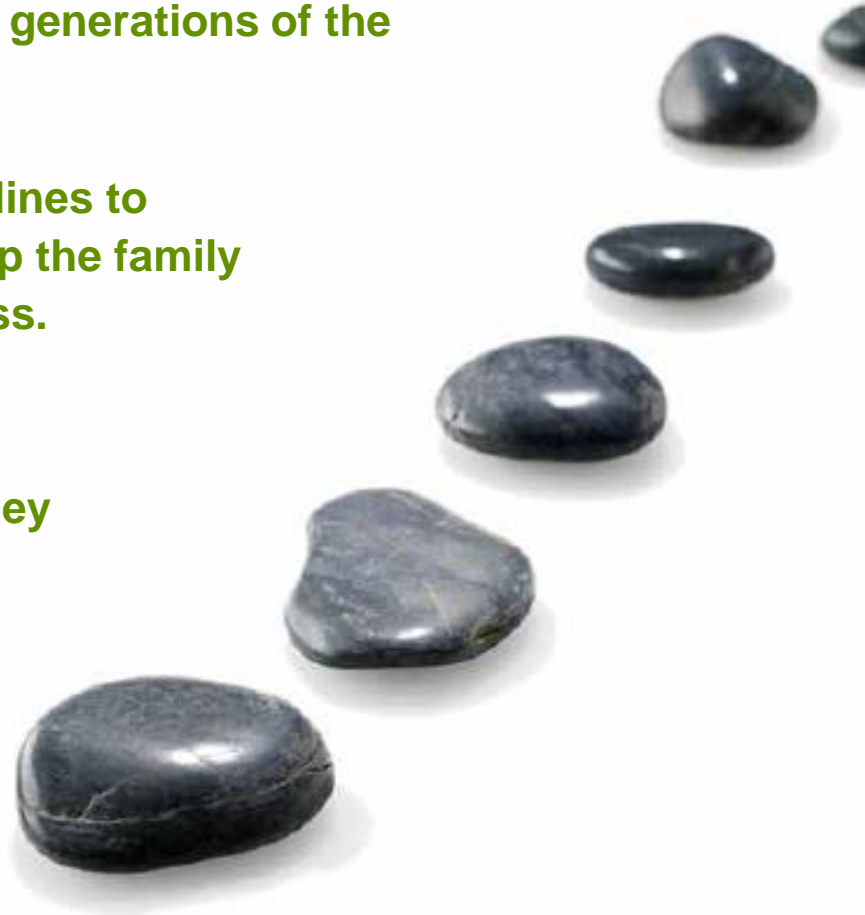


“It would be challenging to sustain the family business for family-controlled entity, as there would not be enough talents to select from within the family to lead the business. My personal preference for the family business is to be family-owned and controlled at shareholder level, but not at director and operation levels. That said, I feel that Wen Ken would be in a much better place if I put in place the following: (1) Right structures – shareholders, board of directors, business, capital and financial (2) Family members to become good stakeholders (3) Recruit and retain outside entrepreneur-managers (4) Focus in our original core business (5) Leverage and build on our business infrastructure”

– Mr Cheong Wing Kiat, 3rd Generation

Conclusion

- **Culture and values function best as the glue that binds when the business is built and owned by the first two generations of the family.**
- **Asian business families need a set of guidelines to help them prepare a roadmap which will help the family stay together even as they build the business.**
- **Asian business families are prepared for change in family governance practices as they transition from one generation to another.**
- **Asian business families can increase the odds of lasting beyond the third generation if they are determined to plan for change and continuity early, anchored on strong culture and values and committed to best practices in family governance.**



Questions and Answers

The Panelists



Dr Stephen Riady

Executive Chairman

OUE Limited



Mrs Michelle Sassoon

President and Chief Operating Officer

Rubina Watch Company Private Limited and The Coffee Bean & Tea Leaf Private Limited



Dr Wong Kam Shing

Managing Director

Kowloon Watch Company



Mr Ho Ren Hua

Vice President/ Executive Director and Country Head, China

Banyan Tree Holdings Ltd



Mr Rehan Amarasuriya

Director

B.P. de Silva



Mr Anesh Shahra

Director

Ruchi Agritrading Pte Ltd

Panel Discussion

The 4Cs of Family Governance for Asian Business Families

Moderator

Professor Annie Koh

Panelists

from left – right

**Dr Stephen Riady | Mrs Michelle Sassoon | Dr Wong Kam Shing |
Mr Ho Ren Hua | Mr Rehan Amarasuriya | Mr Ankesha Shakra |**