



Asian business families continue to be the economic drivers in the region for sustained growth.

OUTLOOK FOR FAMILY BUSINESSES IN ASIA

BY ASSOCIATE PROFESSOR ANNIE KOH AND ELAINE TAN

Asian business families say that Asia has the most significant impact on their businesses with almost 70% of them unequivocally choosing Asia over other regions. This is hardly surprising as there is a natural affinity or home-bias for Asian business families to invest in the growth of their region. In fact, business families have a natural inclination to partner with other business families when exploring growth opportunities in Asia.

These findings were revealed in a research survey commissioned by the United Overseas Bank Limited (UOB) that polled 345 business families based in five Asian countries – China, Indonesia,

Malaysia, Singapore and Thailand.

The interview respondents were key financial decision-makers of business families substantially owned by family members or significantly managed by family members who are in senior management positions such as directors or chief executive officers. The objectives of the research survey were to examine, among other things, their business sentiments for 2013, as well as their expansion plans going forward.

UOB invited Singapore Management University's Business Families Institute (BFI @ SMU) to comment on the results of the research survey and provide insights on the findings.

Profile of Asian Business Families

In examining the profile of the Asian business families that were surveyed, we found that a significant 42% of them were high-potential business families with an annual turnover of between US\$500,000 and US\$10 million. These business families possibly represent the greatest potential for further growth. As expected, the majority of the businesses (54%) had been operated by the families for more than 10 years, for some even longer, which testifies to the longevity and resilience of these business families through generations.

2013 to Perform Better than 2012

Overall, 51% of the Asian business families surveyed were optimistic that the market outlook for 2013 will be better than that of 2012. In particular, business families originating from China, Malaysia and Thailand were particularly confident that this year's market outlook will be better than in 2012. We think the reason for this is that the business interests of these Chinese, Malaysian and Thai business families are fuelled more by their own local economies catering to the growing middle-income private consumption and therefore less reliant on global economic developments.

Asia is Key to Growth

Most of the Asian business families surveyed indicated that one of their priorities for 2013 is to expand into new markets. Specifically, Thai, Malaysian and Singaporean business families have made this their top priority.

There are various reasons for Thai, Malaysian and Singaporean business families to be bullish about expanding into Asia. First, these business families have most of their third generation or more, currently owning or managing their businesses and investments. The next-generation members are more inclined to explore new markets given their overseas education and working experience. Second, given the maturity of their respective domestic markets, these Thai, Malaysian and Singaporean business families are naturally inclined to explore other growth opportunities in the region with other business families or otherwise which, in turn, support the statistics observed.

New Challenges Faced

Across the five countries in the region, 78% of the business families surveyed indicated that the rise in the prices of raw materials and other expenses is their most imperative challenge. While this is to be expected, more interestingly, we noted that most Asian business families were also challenged by the constraints of attracting and retaining talent, as well as stiffer competition. Talent acquisition and retention are also troubling for Singaporean business families despite its generally higher wages and attractive employment opportunities compared to the rest of the region. This human resource challenge is anticipated to be a

pervading one for Asian business families. They will need to develop and manage talent both from their internal family resources as well as from external sources of non-family professional talent.

Chinese Family Businesses

However, unlike the business families operating in the maturing markets of Indonesia, Malaysia, Singapore and Thailand, China's rapid growth in the last five years has seen China's business families encounter different challenges. We found that Chinese business families were facing difficulties in controlling or managing their company's growth.

Other than challenges, the research survey also investigated the top priorities of Asian business families for 2013. Half of the Chinese business families mentioned the need to invest in research and development as a priority. This response rate is much higher than that of business families in the other four countries, implying that Chinese business families are a force to contend with in the future. As many of China's business families are still being led by first-generation entrepreneurs, about 30% of them mentioned expanding into new markets as a priority for their family businesses at this point in time.

Strong Ownership Mentality

There is also a sizeable demand among Asian business families for their own commercial and industrial properties in the region. In fact, half of those who are currently renting their places of business expressed an intention to have their own properties. This reflects the Asian affinity for real estate and further mirrors the strong ownership mentality of Asian business families.

The sustainability of an owner or family-led business is a well-accepted truism because business families tend to think long term and are accountable for their business as business owners across generations. In doing so, these business families are aligning the long-term interests of their shareholders with the prudent management objectives of the businesses. This would then help to lay the foundation for which Asian business families are able to perpetuate their success through challenging market cycles, and for Asian business families to continue to be the economic drivers in the region for sustained growth for generations to come. ▲

ABOUT BUSINESS FAMILIES INSTITUTE AT SINGAPORE MANAGEMENT UNIVERSITY

Singapore Management University (SMU) established the Business Families Institute (BFI) to be Southeast Asia's first regional business family-centric institute focused on addressing the needs of business families in the region. BFI @ SMU intends to serve as an educational, engagement and research platform to bring business families together. BFI @ SMU draws on the university's experience to offer insights on issues such as business succession and family ownership. Its values are centred on facilitating business families to think generations, think growth, and think giving.

The vision of BFI @ SMU is to be a knowledge leader in business family education, engagement and research in the areas of family, ownership, business and governance. BFI @ SMU aims to equip business families with knowledge and capabilities to develop, harness and leverage their family and financial capital across generations. Its mission is to engage and enable business family members to be active, committed and involved stewards, stakeholders and partners through learning and education.

BFI @ SMU is led by Associate Professor Annie Koh who facilitates as its academic director. She is also the vice president of business development and external relations and an associate professor of finance at SMU and had received her PhD in international finance from New York University (Stern School of Business) where she was a Fulbright Scholar. Associate Professor Annie Koh is a frequently sought-after conference speaker at the World Economic Forum, panel moderator and expert commentator. She also sits on several advisory boards, governing councils and steering committees in SMU as well as the financial services, business community and government sectors including the Monetary Authority of Singapore, the Singapore Chinese Chamber of Commerce and Industry etc. Currently, she is also on the Advisory Boards of a number of family businesses. Her research interests and expertise are in family office and family business research, investor behaviour, alternative investments and enterprise risk management.