

SMU helps plug knowledge gap in Asian family businesses with launch of new programme

Dr Stephen Riady, executive chairman of Overseas Union Enterprise (OUE), thought he and his brother James had all it took to run the family business his father Mochtar Riady had built.

He had a first-class education and had worked in a bank's collections department, where one of his tasks was to analyse why some clients were behind in their payments so he could have a better understanding of the wider economic and business conditions. He was even sent to other markets in which his family had businesses, such as Hong Kong, to widen his exposure.

Yet, for the first 10 years after his father handed over the reins to him, he was surprised that Mochtar, one of the best-known bankers in Indonesia and now 84 years old, was fully aware of the various business decisions he made. It turned out that Riady's team of senior managers, most of whom had served under his father, were running to the patriarch behind his back to report on his actions. But just to be sure his son was not discouraged, Mochtar told him, "I don't plan to be here forever." Speaking at the official launch of the Business Families Institute (BFI) at the Singapore Management University (SMU), Riady was recalling his experience of working in a family business. The BFI@SMU is headed by the university's associate professor Annie Koh.

Drop in ROA

It seems the elder Riady already knew something about family businesses — specifically, the importance of successor development. According to published research, typically, a family business will experience its peak in return on assets (ROA) around the 16th year of the CEO's tenure and the ROA will gradually drop from that point onwards, says family business expert Joseph Astrachan, speaking at the same event as Riady at SMU. Professor Astrachan, who has been doing research on family businesses for three decades, is the executive director of the Cox Family Enterprise Center at Kennesaw State University.

While there are many structured courses and programmes offered by universities to train managers, those designed to help owners manage family businesses successfully remain relatively few. "Don't just have a budget for business development, have a budget for family development too," says Astrachan.

"Since 2010, SMU has recognised the emergence of Asian business families and discerned that they require specifically contextualised thought leadership and applied knowledge," says SMU president Arnoud De Meyer. "This is the gap that BFI@SMU will fill. Our philosophy is to work with business families, for business families."

Ho Kwon Ping, executive chairman of Banyan Tree Holdings, notes that many Asian family businesses,



From left: Ho, Riady and Yap at the official launch of the Business Families Institute at Singapore Management University

founded on the ruins of World War II by the first generation and having been grown by the second generation, are now passing into the hands of the third. "Many Asian family businesses are now at the inflexion point, which is also a dangerous point. There is a very glaring absence of thought leadership," says Ho, who is also chairman of SMU, alluding to the common Chinese belief that wealth does not last three generations.

To get the BFI@SMU going, SMU also has an external partner in the form of Deloitte Southeast Asia. The two organisations will jointly undertake related research covering family businesses in Singapore, Indonesia, Malaysia, Thailand, the Philippines and Vietnam. SMU has also convinced more than a dozen local and overseas families to come on board as so-called "founding and alliance families" to share their experiences.

Among others, the issue of succession planning and grooming is one that many families know they have to tackle, but it is not always smoothly executed. While the prevailing practice is for the family head to name a successor, Astrachan believes it makes more sense for the subsequent generation to have a big say, as they are the ones who have to live with that decision. He says while this view is not readily accepted in Asia, families here should accept views outside their own culture.

While some families insist on appointing successors from within the family, Ho says it is "obligatory" for them to look outside too when the top position opens up. However, Ho will not name one successor. Rather, he will put forward two or three nominees in senior management roles with the potential to take on the top job. "The concept of a deputy sitting

around, doing nothing and waiting for succession, is only applicable for monarchies," says Ho.

Starting from scratch

Having gone through the long, grooming process, Riady is putting his children through something similar. For example, he made his son undertake the seemingly thankless task of selling books, sweating it out on the ground. "I want him to learn how to sell, how to handle disappointment," he explains. The next phase will be for his son to help manage investments and handle funds so that he can pick up the finer aspects of finance.

Attention is being paid to other third-generation family members too. Some five to seven years ago, Mochtar Riady began the practice of spending time with his grandchildren individually. During these sessions, the grandfather would find out what their talents are and where their interests lie and groom them accordingly.

Keeping it in the family

For Dr Robert Yap, chairman and CEO of logistics company YCH Group, it was not his original plan to take over the business from his father, Yap Chwee Hock. The senior Yap was

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However, it is likely the son will start by learning to handle a small business. "There's no point letting him run OUE or Lippo; he won't make a difference," explains Riady, referring to the two major business entities controlled by the family. Rather, the son will be tasked with running a unit, such as the Delifrance chain of French-inspired bistros, where he can be given more power in hiring and firing and be exposed to the various aspects of operating a small business, Riady says.

running a modest lorry company that ferried workers and goods around. However, when the business faced a crisis after losing a major client, Yap, whose interest was more in technology than in moving boxes from Point A to Point B, was handed the reins of the company. "I was tricked into taking over. My father handed the company over to me with a handshake," he quips.

Nevertheless, Yap, fresh out of the National University of Singapore, went on to lead the company

with vigour and has been gradually introducing advanced technological systems to better manage the business of logistics. Yap says he plans to eventually hand over the business to his two sons, who have already done internships with the company, even though he does have a senior team of professional managers in place.

Ho points out that if those in a family business want to keep it within the family, there is no issue of getting successors from outside the family. However, the next generation of leaders must learn the necessary skill sets and be able to provide the management with vision, which is where programmes such as the BFI@SMU can come in. "I expect my children to be professional managers. We are teaching many to be great managers, but we want to teach many to be great owners," Ho says.

At the end of the day, owners need to ask themselves what the higher purpose of managing a family business is. Is it an obligation to shareholders? Or is it the continued prosperity of the family alone?

Yap points out that many Western family businesses have been too focused on returns. He believes for Asian companies, it is also about building the family brand, delivering the promise and taking pride in the family name. He used to be wary of describing YCH as a family business because clients and industry partners would have the perception that his business was more likely to fail. But his sentiment has changed.

Ho says families should take pride in what they are doing. "Don't see working in the company as just for the sake of the business; the business is not there to generate dividends for members to lead dissipated lives." ■