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Headline: Asian family businesses need to do more in formal governance

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Survey shows that while the majority see the need for a decision-making body, the picture is different in practice

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DESPITE exhibiting a strong desire for formal governance, there are gaps in the implementation by the majority of Asian family businesses surveyed.

For instance, 71 per cent of the 102 business families surveyed said there should be a decision-making body comprising representatives of the various branches of the family to decide family matters including the selection of family representatives in leading the business.

In practice, however, only 12 per cent have a working governing body elected by family members while 49 per cent have not considered this at all. Alternative mechanisms such as regular meetings of all family members in formal meetings are used by

32 per cent of the respondents while informal meetings of immediate and extended family members are used most (65 per cent).

These were the results from the "Asian Business Families Governance: Crossing the Chasm for Inter-Generational Change" study, which was conducted by the Singapore Management University's Business Family Institute (BFI@SMU).

The widespread use of informal governance practices – informal meetings (65 per cent), family reunions (49 per cent), and other modes of communication (49 per cent) implies that families are adopting fairly flat decision-making structures in their businesses, said BFI@SMU. This allows them to be flexible and agile to change, and be proactive when it comes to adopting innovative thinking and practices for their businesses.

Separately, succession and continuity continue to be a pressing concern faced by business families. Of the families surveyed, 85 per cent said they expect to see succession taking place in their business within the next five years. Yet, only 17 per cent have systematic succession and training plans in place. The survey also revealed that while 31 per cent have a list of potential successors, their succession processes are neither regularly reviewed nor updated by the corporate board.

Notably, business families from Singapore fell far behind India in terms of governance practices – of the 102 families surveyed, 36 families were from Singapore and 10 were from India; the remaining 18 were from Indonesia, 34 from Asia, and four from Europe/US and Australia.

For instance, only 17 per cent of Singapore business families said there is an understanding among family members of the mission, values, philosophy and principles that gov-

ern the family and its business versus 70 per cent from India. Further, only 6 per cent of Singapore families have resolution processes in place to address potential conflicts affecting the business and the family versus India's 30 per cent.

One of the ways to handle family disputes, as shared by Stephen Riady, executive chairman at OUE Limited, is to let each member of the family have their own area of expertise. Between his brother and him, for instance, they have split the business geographically. James Riady oversees the Indonesian businesses while Dr Riady oversees the businesses outside of Indonesia. Depending on each family member's interest, a component of the business is handed to the member to turn around or grow as they see fit, said Dr Riady, who was one of the members on the panel moderated by Professor Annie Koh, SMU's vice-president for business development and academic director of BFI@SMU.

Rehan Amarasuriya, director at BP

de Silva, added that under his father's guidance his generation has been tackling the question of corporate governance from a young age. This is the result of experience – while the company was helmed by the third generation, it had up to 140 shareholders. This has since been pared down to 37 shareholders.

"Our dad sent us for courses when we were about 16 to 17. So we've been engaging this topic and we have a real good understanding, so we can de-risk. ... derisking it with all the processes and systems, but also reinforcing that culture amongst us siblings."

Said Ho Ren Hua, vice-president; and executive director and country head, China, at Banyan Tree Holdings: "My aspiration for (family businesses) in 30-40 years (is that) hopefully, the leading family businesses in Asia will be as professionally managed as the best MNCs in the world, as lean as any start-up in terms of speed and agility, but always preserve the strong stewardship and corporate values."