Southeast Asian Business Family Readiness Is An Afterthought

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FAMILY BUSINESSES DOMINATE SOUTHEAST ASIA and form a critical part of its economy. More than half of the region's largest companies, and nearly all of its conglomerates—both private and listed—are family-controlled. These include household names such as SM Group (Philippines), Charoen Pokphand Group (Thailand), and the Sinar Mas Group (Indonesia). These businesses account for a significant percentage of employment and economic development in the region.

For good reason, these companies are held in high esteem by the global business community. They have achieved tremendous success and growth over the last 60 years and are largely responsible for Southeast Asia having the world's fastest expanding economies with growth rates of more than 6 percent.

Many of the family-owned businesses in Southeast Asia were established in the 1950s and '60s, in the post-World War II era when economic industrialization gave rise to the modern business culture that we know today. The founders of these companies were pioneers of their era, taking great personal risks to grow their countries, and their families, into prosperity.

Today, while these founders are often still present as majority owners overseeing their companies, many of these family businesses are now led by the second generation, and are preparing for the entry of the third generation.

VULNERABILITY OF SOUTHEAST ASIA

Behind the veneer of success, the families behind these businesses could be putting their family success, and the region, in jeopardy.

This is because a large number of the family-owned businesses in Southeast Asia have neglected to take the necessary steps to develop the systems of governance, succession plans, next generation talent, and long-term strategies to ensure the sustained longevity of their family business. They are inadequately prepared for the inevitable generational transition that lies ahead. A study by the Chinese University of Hong Kong found that in 250 family businesses in Hong Kong, Taiwan, and Singapore, on average, the companies that had not invested time in planning for succession lost 60% of their value in the period spanning five years before, and three years after, a generational transition[1].

These are the fortunate ones.

The survival rate of family-owned businesses, in general, is extremely low. According to The Family Firm Institute, only about 30% of family-owned businesses survive into the second generation, and just 12% are still viable into the third generation. There is a myriad of reasons that lead to the collapse of a family's business and decline of their wealth, but it is clear that reversing these odds is crucial for the Southeast Asia region where family businesses are relied upon for economic development.

Not only their family, but their region, is counting on them.

> "Family businesses in Southeast Asia fail not because of their business strategy, but because they fail to think *strategically* about the family *enterprise.*"

SIX PATHWAYS TO A SUCCESSFUL TRANSITION

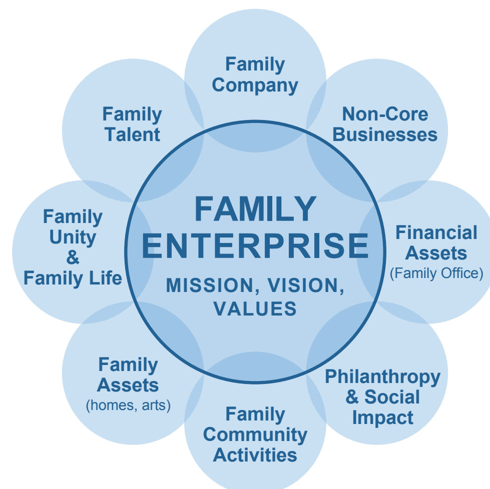
There are six essential actions that Southeast Asian families can take that will help lead to successful generational transitions of their businesses and wealth. These actions require forward planning, some discipline and organization in the family, and a new way of thinking about the survivability of the family business.

[1] "The Great Succession Challenge of Asian Business" by Joseph P. H. Fan, Professor, School of Accountancy and Department of Finance & Director, Institute of Economics & Finance

1. THINK STRATEGICALLY ABOUT THE FAMILY ENTERPRISE.

Southeast Asian family businesses often have competitive business strategies, capable management teams, and well-run organizations. These are necessary ingredients for a strong company. Yet they fail in spite of this, because these aspects will only take a family business so far. When the family owners become too focused on the strategy of their core business, and fail to think strategically and long-term about the entire *family enterprise*, they fail to see the big picture. They can be blind to disruptions that may derail them.

The FAMILY ENTERPRISE is the collection of a family's meaningful activities and financial interests that they want to sustain through the next generation. This typically includes the core operating business, but often more, such as other operating businesses, real estate investments, a family office, art collections, philanthropic activities, and other pursuits that carry the family's name and reputation. The entirety of a family's meaningful activities and financial interests is called the *family enterprise.*



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Families that anticipate the challenges of greater complexity in the system, by taking a 'family enterprise view,' stand a better chance to survive and prosper. They strategically plan for what lies ahead in all areas of the family enterprise, not just in the legacy business, and align these strategies to be compatible.

This involves getting altitude, looking forward one or two generations into the future, and answering high-level questions such as:

- What is our family's mission (purpose)?
- What areas do we need to cultivate and grow versus reduce or sell?
- Where is investment needed to grow shareholder value for the next generation?
- Where should the family contribute?
- Where will governance be needed?
- Where will talent be needed? How do we prepare that talent?
- What unites our family and brings us together?

When a family looks at the total family enterprise and envisions, together, where they want it to be in the future, this is a highly motivating and uniting exercise for both generations.

2. INSTALL A GOVERNANCE SYSTEM THAT IS RIGHT-SIZED FOR THE NEXT GENERATION.

What it took for founder-stage businesses in Southeast Asia to succeed over the last 40-50 years is not a model that can typically be replicated in the second or third generation with the same outcome. First Generation family businesses rely on the founder to make decisions in essentially all areas of the business and family's life. Power is concentrated with the founder due to his/her enormous influence and ownership authority, but also because, culturally, it is customary in Southeast Asian families to express deference to the founder.

In the Second Generation, the leadership and ownership model needs to be redefined. A group of siblings usually shares leadership and decision-making for what is now a more complex enterprise. Despite their diverse range of capabilities and interests, siblings often demand equal treatment in terms of roles, titles, and compensation, thinking this will reduce rivalry. The founder often keeps the second generation siblings united and moving in the same direction. But in the absence of the first generation, siblings will either team well together, or begin to fracture. If the second generation does not build strong relationships and friendships, the third generation will have a harder time uniting. A group of third generation cousins is larger in number, tends to identify with their branch instead of the large family, and the physical distance and cultural differences among them are more pronounced. To remain a strong team, siblings and cousins must do the work to maintain positive relationships, fairness and transparency, and develop a shared vision for their future. They greatly benefit from establishing governance forums for structured discussions and decisions.

A good first step is for the family to embrace a governance system that permits both strategic and tactical conversations to take place at the right time, with the right people. Each family's governance needs are different and should only include as much governance as is useful.

The most common governance mechanisms in a family enterprise are listed below, and work best together in an integrated fashion:

- Board of directors and portfolio board (to oversee the operating companies)
- Owners council (to plan for owner-level issues and make ownership decisions)
- Family assembly (to unite, inform, and educate the entire business family together)
- Family council (to plan for the family, resolve family disputes, and make family decisions)
- Family constitution (a set of family policies that govern family behavior)

A high-functioning governance system helps the family clarify and achieve their strategic direction. It offers families clarity on their purpose, on their roles and areas of responsibility, how they will support one another, and rules for fair decision-making. These governance practices strengthen family relationships and allow disagreements to be handled in a neutral and transparent way.

This, in turn, often unites a sibling and cousin group, and provides a motivating example for the next generation to want a seat at the table in the future.

3. ENCOURAGE A CULTURE OF OPEN COMMUNICATION.

Building a strong sibling and cousin team requires trust, reliability, and dialogue. This is true whether a family is exchanging views on their risk tolerance, resolving a disagreement, or discussing succession.

> "Ironically, a culture that unconditionally respects hierarchy, obeys authority and elders, and avoids conflict contradicts the long-term objectives of most Southeast Asian families."

Open and honest communication among family members around succession remains difficult for Southeast Asia families. Dialogue is often avoided because talking openly about succession is considered inauspicious or disrespectful to the senior generation in many Southeast Asian families. Ironically, a culture that unconditionally respects hierarchy, obeys authority and elders, and avoids conflicts, contradicts the long-term objectives of most Southeast Asian families to perpetuate their family enterprise.

Part of what makes talking about succession so difficult is that family businesses are inherently fragile, held together by a complex web of interrelated, social, and psychological factors, some of which include a sense of obligation, fear, and respect. Through the governance forums described in this article, families have mechanisms within their reach to have the open and honest conversations they need to plan for the future and minimize conflict. Business families need to understand that by simply avoiding this important topic, the damage to the family and the business can be significant.

4. BOTH GENERATIONS MAKE A PLAN FOR THE TRANSITION.

The timing of a generational transition is a challenge that affects many Southeast Asian business families. Often, the senior leader opts to stay in place as long as he/she desires, and considers a transition to the next generation any earlier than this, to be difficult. The senior leader's unwillingness to relinquish control of the business can become problematic. As a result, either the transition occurs when the leader dies or is too ill to lead, and there is often no plan. It is ironic that founders often dictate and influence every aspect of their business, except how it will continue to be looked after.

Planning for the continuity of the family business should be a team effort, for both generations to do together, with a roadmap that is co-designed and implemented over time. It ought to be planned far before the leader transitions (we recommend at least 3-7 years in advance), allowing time for discussion, planning, pivoting, mentoring, and the development and testing of successor candidates.

Involving the next generation early in succession discussions is preferable, to incorporate their reactions and ideas. Communication about the succession plan helps to reduce frustration, impatience and strained relationships that can arise in the absence of certainty. A good plan helps to remove the mystery, so the next generation can be preparing themselves to feel confidently ready to step into their roles. As Ho Ren Hua, a second generation son of Ho Kwon Ping (founder of Banyan Tree Holdings Singapore) told *The Economist*, "We need to clarify the role of the next generation in the medium- and long-term. Once you've clarified that vision, you can create timelines in terms of roles". When, as soon as possible, the next generation is provided clarity on the steps, milestones, conditions, roles, growth opportunities, ownership distribution, rewards, and timing of the transition, they will feel more motivated and invested in a successful transition. Non-family management also benefits from knowing, generally, what the transition plan looks like.

It should be noted that succession planning is needed in all areas of the family enterprise: in leadership, management, the board, ownership, the family office, other governance roles, philanthropic activities, and in all areas that carry the family's name and reputation.

> "Preparation of the next generation is the single most important determinant of a successful generational handoff."
> - John A. Davis -

5. NURTURE NEXT GENERATION INTEREST.

The rising generation of Southeast Asian business family members are shaped by three key factors: modern education, global perspective, and digital technology. It is important for business families to invest time and resources to help the next generation discover their talents, interests, and their place within the family enterprise.

According to the Cambridge Institute for Family Enterprise's 2018 study on the Millennial Generation in Business Families, almost half of Millennials from business families want to be entrepreneurs, and many want their families to provide financial support for their ventures. Meanwhile, 40% of Millennials from business families want to rise to a leadership position in their family business. They value interesting work, having an ownership stake in the family business, independence, and flexibility. They are motivated by challenge, growth, and lifestyle more than money. Families need to think about the opportunities they can offer Millennials, both in and out of the family business, and be more flexible than in previous generations. If the next generation chooses not to work in the family business, they may want to be engaged as an owner, board member, family council member, or in other ways that can be important contributors to the success and growth of the family enterprise.

6. SHAPE A NEW ROLE FOR THE SENIOR GENERATION.

It is important for the senior generation to understand that their role as chief executive and top leader needs to transition to one that is educator and coach to the next generation. The outgoing leader may become Chair of the Board, or lead other activities or investments, but a clearly defined role is needed, with a mandate to mentor the next generation. As Professor John Davis says, "preparation of the next generation is the single most important determinant of a successful generational handoff." It is the obligation of the senior generation to help the next generation reach their highest potential in the family enterprise, and in life, and be ready to inherit what the family intends to pass to them.

Equally important, the outgoing elder must take the time to plan scenarios for his or her own next chapter. If the leader views his/her legacy as the total family enterprise, there could be many roles available in different intensity levels. Possible roles could be: a distant oversight role in the main business, a moderately active role in venture capital investments, a public role in the philanthropic foundation, and an active role in mentoring the young generation to connect them to the history and legacy of the family. He/She must reflect on what will be their highest and best use in the enterprise after the CEO role. Developing personal goals and interests outside of the business help contribute to leading a satisfying life while being useful to the family.

SHIFT PLANNING TO A FORETHOUGHT RATHER THAN AN AFTERTHOUGHT

Southeast Asia is seeing one of the biggest transfers of ownership and wealth in history. The ability to successfully transition to the next generation, especially among the largest family-owned and controlled businesses, is extremely important given their influence in the region's economy. It is critical that the succession plans of these family-owned businesses are well thought through not only for the core business but for the total family enterprise. Dedicating the time and effort to putting in place a governance system, having open conversations, defining roles for all generations, and partnering on a succession plan are all key steps toward a smooth transition and an enduring family enterprise.

It is not an exaggeration to say that the region depends on business families doing this right.

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Marlon Young is an advisor to business families throughout the world on the design and implementation of family enterprise governance, ownership issues, succession planning, and next generation development.

ABOUT THE CAMBRIDGE FAMILY ENTERPRISE GROUP

The Cambridge Family Enterprise Group, founded in 1989 by John A. Davis, is a global advisory, education, and research organization dedicated to family-owned enterprises. We help families in business achieve transformative change and multigenerational success for their families, ownership groups, enterprises, and financial wealth. It is comprised of two divisions: Cambridge Advisors to Family Enterprise, a highly specialized, international advisory firm serving family enterprises, and Cambridge Institute for Family Enterprise, a leading education and research institute dedicated to the significant issues family enterprises face.

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