Leadership: Asian business families view talent development as key to long-term sustainability

Business Growth: Asian business families are looking to innovate and to increase productivity to drive future business growth

Succession planning: Asian business families appreciate the value that professional managers bring to the business even when they are focused on developing family members as successors
Building strong business foundations is in UOB’s DNA.

UOB started as a small bank serving the merchant community in Singapore in 1935. Today, we have a network of more than 500 branches and offices across eight countries in Southeast Asia, including Myanmar. We opened the doors of our first branch in Yangon in May 2015. Southeast Asia is our home and through economic cycles, we remain committed to supporting businesses here.

Through the years, we have also developed deep relationships with our customers, many of whom are business families that started banking with us as first generation businesses and are now in their third. We have used our experience in Singapore and the region to help Asian business families seize the opportunities that Asia’s intra-regional trade and rising middle class are generating.

With the world and Asia changing so quickly, Asian business families remain a stable driving force of Asia’s growing economy. Many of them are built on, and led by timeless values such as integrity, commitment and trust. Such businesses play a critical role in the success of an economy for the employment they create and the business demand they generate.

To continue their growth trajectory, Asian business family leaders now need more skill sets than ever before. From the need to understand external economic headwinds, to the need to think of long-term strategies to ride on regional trade integration initiatives, these business family leaders have to manage all these changes in the business environment to ensure their continued success.

With this report, UOB’s Commercial Banking team offers insight into what drives Asian business families and the challenges they face. We hope that Asian business families reading this will be able to benefit from these findings.

Eric Tham
Managing Director and Head
Group Commercial Banking
United Overseas Bank
About the Author

Professor Annie Koh is the Vice President for Office of Business Development, Singapore Management University (SMU). A Professor of Finance, Annie holds various positions including that of Academic Director of the Business Families Institute. Annie also received the prestigious Singapore Public Administration Medal (Bronze) in 2010. A notable conference speaker, panel moderator and commentator, Annie serves as an adviser to a number of family businesses.

Annie is a recipient of the prestigious Singapore Public Administration Medal (Bronze) in 2010. She chairs the World Economic Forum Global Agenda Council for Southeast Asia and the Asian Bond Fund 2 Supervisory Committee of the Monetary Authority of Singapore. She was recently appointed as a member of the global-based Family Firm Institute (FFI), SkillsFuture HR Sectoral Tripartite Committee and HR Certification Taskforce. Annie is a member of the MOE-WDA Skills Development Council representing SMU, Advisory Boards for the School of Economics and Management, Wuhan University and i3L Indonesia International Institute for Life Sciences, as well as a board member and audit committee member of Singapore’s Central Provident Fund, and a member of the Research and Publications Committee of Singapore Chinese Chamber of Commerce & Industry.


About the Co-Author

Professor Chen Ling is Associate Dean and Director of the Institute for Entrepreneurs at School of Management, Zhejiang University (ZJU). He is also the Founding Director of the Institute of Family Business at ZJU. His main research interests include family business research, especially in management, transformation and corporate governance of family businesses, history of China’s modernisation and the comparative studies of business history. In addition, he has researched in the areas of human resource management and regional development, and has taught corporate governance at Executive Master of Business Administration programmes.

Professor Chen has a PhD in Economics (1995) from the Humboldt University, Berlin, Germany. He has published ten academic monographs and more than 70 articles in academic journals on family businesses. He sits on the advisory boards of numerous international family business research journals and acts as an independent board member or a consultant to several family firms in China and Southeast Asia.
About the Co-Author

Esther Kong is the Senior Associate Director of the Business Families Institute @ Singapore Management University (BFI @ SMU) with a Bachelor of Business from the Nanyang Technological University. She brings a wealth of more than 18 years of experience in the non-profit organisation and education space as an effective fundraiser and bilingual communicator. Having a proven track record of building sustainable partnerships, Esther is poised to foster trusting relationships to assist business families in their growth, and building family and business sustainability in today’s diverse and complex business environment.

About the Co-Author

Jeandra Ejercito is a Research Manager at the BFI @ SMU. Jeandra holds a Bachelor Degree in Statistics from the University of the Philippines (Diliman). She has diverse and extensive experience in various fields of quantitative research. She has developed expertise in data management, including but not limited to the design of data collection tools, the designing of programmes for data entry, programme data cleaning specifications syntax, data validation tools, data tabulation, data analysis and presentation. Jeandra joined the BFI @ SMU in June 2013 to manage the integrity and accuracy of data analytics and to give meaningful insights through the use of figures and responses from survey questions in the specific area of business families.

About Business Families Institute @ Singapore Management University (BFI @ SMU)

SMU established the Business Families Institute (BFI @ SMU) in August 2012 in response to the growing needs of business families in Asia. Since 2010, SMU has recognised the emergence of Asian business families and discerned that they require specifically-contextualised thought leadership and applied knowledge. With this in mind, the BFI @ SMU collaborates with various partners, academic or otherwise, to be a knowledge leader in Asian business family-related education, engagement and research. Focused on its mission and philosophy of working with business families, for business families, the Institute addresses business family-specific issues such as family, ownership, business succession and governance. The vision of the BFI @ SMU is to facilitate business families in Asia to develop, harness and leverage their family and financial capital across generations.

Its values are centred on facilitating business families to THINK GENERATIONS, THINK GROWTH, THINK GIVING, and THINK GLOBAL.

More information may be found at our website: http://bfi.smu.edu.sg/.
About Zhejiang University (ZJU)

Zhejiang University is a comprehensive research university with research programmes spanning 12 academic disciplines, such as philosophy, economics, law, education, literature, history, art, science, engineering, agriculture, medicine and management. With seven faculties and 36 colleges/schools, Zhejiang University has 14 primary and 21 secondary leading academic disciplines on a national level.

Zhejiang University focuses on assiduous study and research, and science and technological innovation. It has launched a number of international high-end academic platforms and gathered masters, scholars and high-level research teams in various disciplines. In recent years, Zhejiang University maintains a leading position in China in output indicators such as publications and patents, and has made numerous important achievements in science, technology, humanities and social sciences. Zhejiang University always takes the initiative in catering to national and regional research needs, and exerts itself to become an influential high-level source of innovation and a pool of talents. In 2014, the research fund at Zhejiang University amounted to RMB3.121 billion with 115 research projects securing a grant of more than RMB10 million each.
Research Methodology

The BFI @ SMU collaborated with Zhejiang University to undertake a research survey relating to entrepreneurial attitudes, strategies and aspirations of Asian business families. Zhejiang University designed the questionnaire for Chinese business families and collected the raw data in China.

United Overseas Bank Limited (UOB) then partnered with the BFI @ SMU to translate, disseminate and conduct the research survey in English in Southeast Asia. The survey was conducted online as well as on paper.

The research survey shares insights on how Asian business families perceive, build and grow entrepreneurship in their businesses. It also offers the comparative analysis of entrepreneurial activities and capabilities of Asian business families across different countries.

A total of 192 business families in seven Asian countries, namely China, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand participated in the survey conducted by BFI @ SMU from November 2014 to July 2015. Business families are defined as businesses substantially owned by family members and/or significantly managed by family members who hold senior management positions as Directors, CEOs etc.

To provide a general overview, the segment profile of these respondent business families in terms of their respective base of operations, sales turnover, industry sector, number of generations and number of employees is set out in the Annex: Respondent profile.
Introduction

As one of the world’s most dynamic and fastest-growing regions, Asia has undergone decades of rapid economic growth and development. At the heart of this growth are family businesses that have started as small and medium-sized enterprises (SMEs). We call them business families. These business families are integral to Asia’s continued success as they are highly accomplished and widely acknowledged as the engines of economic growth and innovation.

Even in Singapore where its economy is more developed than the rest of its peers in Southeast Asia, recent estimates by the Republic’s Ministry of Trade and Industry revealed that SMEs contributed to around 50 per cent of its gross domestic product. While SMEs still play a big part in Southeast Asia’s economy today, many Asian business families have also developed into large conglomerates that are listed on stock markets across Asia in the last few decades.

At the same time, a new wave of business families is beginning to emerge in China as its economy continues to open up and develop. With increased trade integration in the region, China’s economic connection with Southeast Asia will only become more intimate. For example, the 21st Century Maritime Silk Road, connecting China with Southeast Asia, is just one example of large-scale initiatives that open up new business opportunities and infrastructure projects to the region and its many business families.

In view of these economic trends unfolding before us today, it is beneficial for stakeholders and investors to have a deeper understanding of Asian business families. We need to ask ourselves what makes them resilient and successful? What are the business values that they hold? How do they manage succession planning? What are their strategies for growth that will enable them to ride the wave of Asia’s economic transformation?

To understand Asian business families better, UOB partnered with BFI @ SMU to conduct this research survey.

The objective of the study was to provide broader perspectives on the entrepreneurial attitudes and aspirations of Southeast Asian and Chinese business families. It also aimed to determine the importance of leadership, business growth and succession plans within these business families.

1 Ministry of Trade and Industry, Singapore, 17 August 2015
Executive Summary

Leadership: Asian business families view talent development as key to long-term sustainability

- Two-thirds of Asian business families are focused on attracting talent for long-term sustainability.
- Asian business families need deeper knowledge on wealth management and wealth distribution to ensure that the value of their business and wealth is not lost during the transition from one generation to the next.
- More than 80 per cent of Asian business families place great emphasis on the values of commitment, integrity and trust.

Business Growth: Asian business families are looking to innovate and to increase productivity to drive future business growth

- Asian business families are innovating to improve product quality and to drive cost reductions.
- Balancing growth with stability is the top priority for four out of five Asian business families.
- Asian business families favour exporting and setting up joint ventures to expand internationally.

Succession Planning: Asian business families appreciate the value that professional managers bring to the business even when they are focused on developing family members as successors

- More than three out of four Asian business families prefer family members to professional managers to take over the reins of their businesses.
- Asian business families need systematic succession plans to ensure a smooth transition to the next generation.
Leadership: Asian business families view talent development as key to long-term sustainability

Two-thirds of Asian business families are focused on attracting and developing talent for long-term sustainability

The majority of Asian business families surveyed are in the midst of transitioning their businesses from the first generation to the next generation of sibling partnership or a cousin consortium. At this critical point in the business, two-thirds of the respondents rated talent recruitment and development as the main focus of transition or challenge encountered.

To this end, Asian business families recognise the need to attract external professional managers talent so as to tap on their specialist skill sets mainly in financial management, regional expansion and human resourcing to set up more professional talent development structures. Among the respondents, 38 per cent indicated the need to establish professional management systems within the business. Chinese business families in particular are the most focused on establishing modern management systems. These include bringing on board a panel of independent advisers, developing effective succession plans, investing in technology and IT systems, as well as professional management processes related to recruitment and development, compensation and benefits.
The survey also showed that besides well-designed remuneration plans, Asian business families attract professional managers by entrusting them with autonomy and treating them with respect and fairness. In particular, more than 90 per cent of the respondents in Singapore cited trust and autonomy as the top ways to attract and retain professional managers. With one of the highest proportion of skilled labour in Asia, it is not surprising that Singaporean business families’ professional managers are given a high-level of management responsibilities in addition to nurturing the next generation of family members to prepare for succession through coaching and mentoring.

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5-Good, 6-Somewhat Good, 7-Very Good)
Asian business families need deeper knowledge on wealth management and wealth distribution to ensure that the value of their business and wealth is not lost during the transition from one generation to the next.

The survey showed that only eight per cent of Southeast Asian business families believe they have sound wealth management knowledge. As their scale and size continues to grow, Asian business families need to deepen their knowledge in the key areas of wealth management and wealth distribution, including asset allocation, wealth planning needs, wealth protection strategies, inter-generational wealth transfers, tax structures, family governance and succession planning.

This is to ensure that the value of their business and wealth is not lost during the transition from one generation to the next. With the global economy becoming more volatile, Asian business families also need to understand the economic environment in which their businesses are operating so that they can manage the ebb and flow of business risks across geographies.

With Singapore’s reputation as a wealth management hub, business families from Singapore are the most aware of the need to enhance their capability in managing and distributing wealth, with only four per cent satisfied with their own knowledge in these areas.

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5-Good, 6-Somewhat Good, 7-Very Good)
Riding on Asia's economic transformation - Growth strategies of Asian business families

Asian business families are built on the values of commitment, integrity and trust

More than 80 per cent of Asian business families place great emphasis on the values of commitment, integrity and trust.

Trust between shareholding family members is essential as they need to support the long term financial decisions undertaken by business family leaders.

They are innovative and focused on the long term as they grow

Four out of five Asian business families listed stability and continuity as the top priority.

Business families in Singapore are the most risk-averse in Asia. Only 29% of respondents from Singapore said that they would use high-risk for high return investments as a growth strategy, compared with 37% and 41% of their peers in China and Southeast Asia respectively.

They prefer to innovate through reducing costs, improving product quality and introducing new products.
Growth Strategies of Asian Business Families

Succession plans have already been drawn up

- Over 3 in 4 Asian business families prefer family members to take over the business in the future.
- 1 in 2 have prepared a list of potential successors.
- 1 in 2 have also prepared clear succession and training plans for successors.

Asian business families understand that there is always room for improvement

**Two-thirds** rated talent recruitment and development as the main approach to securing long-term business stability.

**Only eight per cent** believe they are doing well in family wealth management. Asian business families need to deepen their knowledge in the areas of wealth management and wealth distribution when it comes to family governance and succession planning.
More than 80 per cent of Asian business families place great emphasis on the values of commitment, integrity and trust.

Asian business families are built on commitment, integrity and trust. As the business is passed on from one generation to the next, trust between shareholding family members is essential because they support and benefit from the long-term financial and strategic decisions undertaken by the leaders of these business families. Trust is also needed to build the positive family dynamics required for the successful transition of the business from one generation to another.

It is therefore no surprise that Asian business families cite these qualities, together with competency and intelligence, as some of the most important attributes that the head of the business should have. For example, in Singapore, having the trust of shareholding family members (100 per cent) and being committed to the business (98 per cent) were cited as the most important attributes a business leader should have.

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5-Good, 6-Somewhat Good, 7-Very Good)
Business Growth: Asian business families are looking to innovate and increase productivity to drive future business growth

Asian business families are innovating to improve product quality and to drive cost reductions

In an increasingly competitive business environment, innovation is one of the ways Asian business families are moving forward in order to grow in the world’s most economically dynamic region.

The survey identified eight innovation strategies that business families in Asia adopted. Respondents from Singapore prefer to innovate through the introduction of next generation of products (80 per cent), improve the quality of their products (80 per cent) and extend their product range (78 per cent). In the rest of Southeast Asia, business families prefer to explore methods to reduce their consumption of raw materials (82 per cent) and to reduce production costs (82 per cent), while nearly three in five respondents in Southeast Asia are innovating to introduce ‘next generation products’ to drive business growth.

Reducing costs through lowering their consumption of raw materials and production costs is also an important strategy for four in five Southeast Asian business families. Our findings revealed that in addition to cost reduction, business families also steer their business carefully with a preference for expansion strategies that are less risky so as to have healthy financial reserves even during economic downturns.

### Asian business families’ innovation strategies

<table>
<thead>
<tr>
<th>Innovation Strategy</th>
<th>All Respondents</th>
<th>China</th>
<th>Singapore</th>
<th>Others (Southeast Asia)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction of next generation of products</td>
<td>73%</td>
<td>76%</td>
<td>80%</td>
<td>59%</td>
</tr>
<tr>
<td>Extension of product range</td>
<td>70%</td>
<td>67%</td>
<td>78%</td>
<td>69%</td>
</tr>
<tr>
<td>Entry to new market</td>
<td>77%</td>
<td>80%</td>
<td>76%</td>
<td>72%</td>
</tr>
<tr>
<td>Entry to new technology field</td>
<td>71%</td>
<td>80%</td>
<td>59%</td>
<td>64%</td>
</tr>
<tr>
<td>Improvement of product quality</td>
<td>80%</td>
<td>83%</td>
<td>80%</td>
<td>74%</td>
</tr>
<tr>
<td>Improvement of production flexibility</td>
<td>68%</td>
<td>71%</td>
<td>63%</td>
<td>67%</td>
</tr>
<tr>
<td>Reduction in production cost</td>
<td>80%</td>
<td>82%</td>
<td>76%</td>
<td>82%</td>
</tr>
<tr>
<td>Reduction of raw material consumption</td>
<td>82%</td>
<td>88%</td>
<td>69%</td>
<td>82%</td>
</tr>
</tbody>
</table>

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5-Important, 6-Somewhat Important, 7-Very Important)
Balancing growth with stability is the top priority for four out of five Asian business families

The survey reinforced that Asian business families are adopting a long-term management approach with more than 80 per cent of respondents citing sustainability as a priority for their business growth strategy.

In particular, business families in Singapore are the most focused on the long term, placing the highest priority on maintaining the stability and continuity of their business (84 per cent). They are also the most risk-averse when it comes to high-risk investments when compared with their peers in China and other countries in Southeast Asia.

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5-True, 6-Somewhat True, 7-Very True)
Asian business families favour exporting and setting up joint ventures to expand internationally

When it comes to expansion strategies, the majority of the business families surveyed have indicated that exporting their products and services is the top choice for international expansion. On the whole, respondents favoured export the most as they viewed it as the fastest route to expand into different markets within Asia.

Forging a Memorandum of Understanding and mergers and acquisitions were the least favoured strategies, a possible indication of the importance of trust required for Asian business families to partner another business for the long term. Surveyed business families do not see the need to enter into partnerships directly, rather they favour a less risky and more flexible approach to grow their business globally. Only one in four Singapore business families would consider establishing a joint venture partnership.

This attests to the long-term thinking of business families where regional connectivity and expansion is developed gradually through a journey of building trust with like-minded business partners over a number of years.

![Asian business families' strategies for international expansion](image)

Percentage figures may not add up to 100% due to rounding.
Succession Planning: Asian business families appreciate the value that professional managers bring to the business even when they are focused on developing family members as successors

More than three in four Asian business families prefer family members over professional managers to take over the reins of their businesses

Business families, particularly those in Singapore (86 per cent) and other Southeast Asian countries (82 per cent), prefer to keep the ownership and management of their business to the most suitable successor within the family.

However, the majority of business families’ leaders are also practical about their successors’ business and entrepreneurial credentials. To address this, new business ventures are encouraged as they serve as incubators to train and develop the skill sets of the next generation and they are also seen as an avenue for the next generation to run a business of their own. Family leaders who venture out on their own early in their career usually re-join the family’s business after establishing their entrepreneurial credentials externally.

For these Asian business families, traditional gender mindsets are also changing. Today, the gender of the successor is not as important as long as the successor comes from within the family. In fact, the current heads of business families surveyed in Singapore (77 per cent) and other Southeast Asian countries (79 per cent) are already training and developing a suitable successor within the family.

Succession preferences of current Asian business families

<table>
<thead>
<tr>
<th>Preference</th>
<th>All Respondents</th>
<th>China</th>
<th>Singapore</th>
<th>Others (Southeast Asia)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly prefer family members to run the business</td>
<td>76%</td>
<td>68%</td>
<td>86%</td>
<td>82%</td>
</tr>
<tr>
<td>Encourage children to start new business</td>
<td>68%</td>
<td>74%</td>
<td>69%</td>
<td>54%</td>
</tr>
<tr>
<td>Has trustworthy family successor in mind</td>
<td>73%</td>
<td>68%</td>
<td>77%</td>
<td>79%</td>
</tr>
<tr>
<td>Choose suitable family successor regardless of gender</td>
<td>83%</td>
<td>78%</td>
<td>92%</td>
<td>82%</td>
</tr>
</tbody>
</table>

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5-Agree, 6-Somewhat Agree, 7-Totally Agree)
Asian business families need systematic succession plans to ensure a smooth transition to the next generation

For a successful transition of the business to the next generation, Asian business families acknowledge that they need a systematic succession plan in place early. Currently, half of the respondents have a clear succession plan or have started to actively develop their potential successors.

For many Asian business families, succession presents a critical turning point for the business so they believe that it is never too early to plan for a smooth transition. This is because it may take five to 10 years before the named successor or successors could fully take over the reins of the business.

One in two of the respondents believe that a clear and systematic succession and training plan is important so that processes can be put in place to encourage open and positive communication between the current leaders and the eventual successors. However, there is still room for improvement to address both formal and informal development where successors receive assistance and support in adapting to business-related areas, as well as in handling family dynamics, building teams and developing skills to gain the respect of employees, partners and suppliers alike.

Graph shows percentage ratings of respondents giving top-three-box scores out of 7-point scale (5=True, 6-Somewhat True, 7-Very True)
Conclusion

There are four key elements to how Asian business families are preparing themselves to benefit from Asia's economic transformation – culture, clarity of strategy, communication and continuity. When put together, all these elements provide us with a better understanding of Asian business families and the challenges and opportunities before them.

The values that Asian business families are built on include trust, integrity and commitment. These values are communicated across cultures of business families in Asia. As stewards of the business, these business leaders find that shared values help them continue to thrive in challenging times. As family businesses are created to last for generations, their entrepreneurial pursuits have to transcend the different economic cycles of the business, from start-up stage where the business is focused on one market to growing into a multi-national conglomerate with many different businesses.

Our study also shows that while ambitions are big, Asian business families have conservative risk appetites. This implies that business families tend to favour stable returns over riskier growth options. Asian business families also have clarity in their strategic direction and leaders execute their business expansion plans carefully with a preference towards less risky growth strategies such as exporting and trading before setting up joint venture partnerships. They believe that connectivity in partnerships can be forged through gradually building business relationships with like-minded business families across borders.

As Asian business families expand and grow, succession planning involves the development of next generation family members as well as professional managers who can help run the family’s businesses. Asian business families are also at a point where there needs to be greater collaboration between various entities – family members and external professional managers, stakeholders and investors through effective communication and planning to ensure their continuity.
Annex: Respondent profile

Country

- China: 104
- Singapore: 49
- Thailand: 16
- Malaysia: 12
- Indonesia: 9
- Myanmar: 1
- Philippines: 1

n=192

Generation

- Gen 1: 59%
- Gen 2: 35%
- Gen 3: 6%
- Gen 4: 1%

Generation (by country)

- China
  - Gen 1: 74%
  - Gen 2: 26%

- Singapore
  - Gen 1: 44%
  - Gen 2: 42%
  - Gen 3: 12%
  - Gen 4: 2%

- Others [Southeast Asia]
  - Gen 1: 57%
  - Gen 2: 35%
  - Gen 3: 8%
How many employees are currently employed by your company?

What is the yearly sales figures for your company (in USD)?

Which industry(s) does your company specialise based on the GICS (Global Industry Classification Standard) classification?