

All in the family

CONTINUITY AND CULTURAL VALUES HELP KINDRED BUSINESSES FORM THE BACKBONE OF ASEAN ECONOMIES

By **KRISHNA KUMAR VR** in New Delhi
For *China Daily Asia Weekly*

In 1873, Eu Kong left his hometown in Southern China to seek his fortune in Malaysia. On arrival, he set up a shop that he named Yan Sang — which means caring for mankind in Chinese — supplying Chinese medicine and herbs.

Eu passed the mantle of this small firm on to his only son, Eu Tong Sen, who continued to expand the business, adding the family name to the brand. Today, Eu Yan Sang International is a listed entity in Singapore and Hong Kong.

Eu Yan Sang is far from the only family business to become a major international concern. Asia is awash with such companies — from Malaysian giant Genting Group, which is controlled by the family

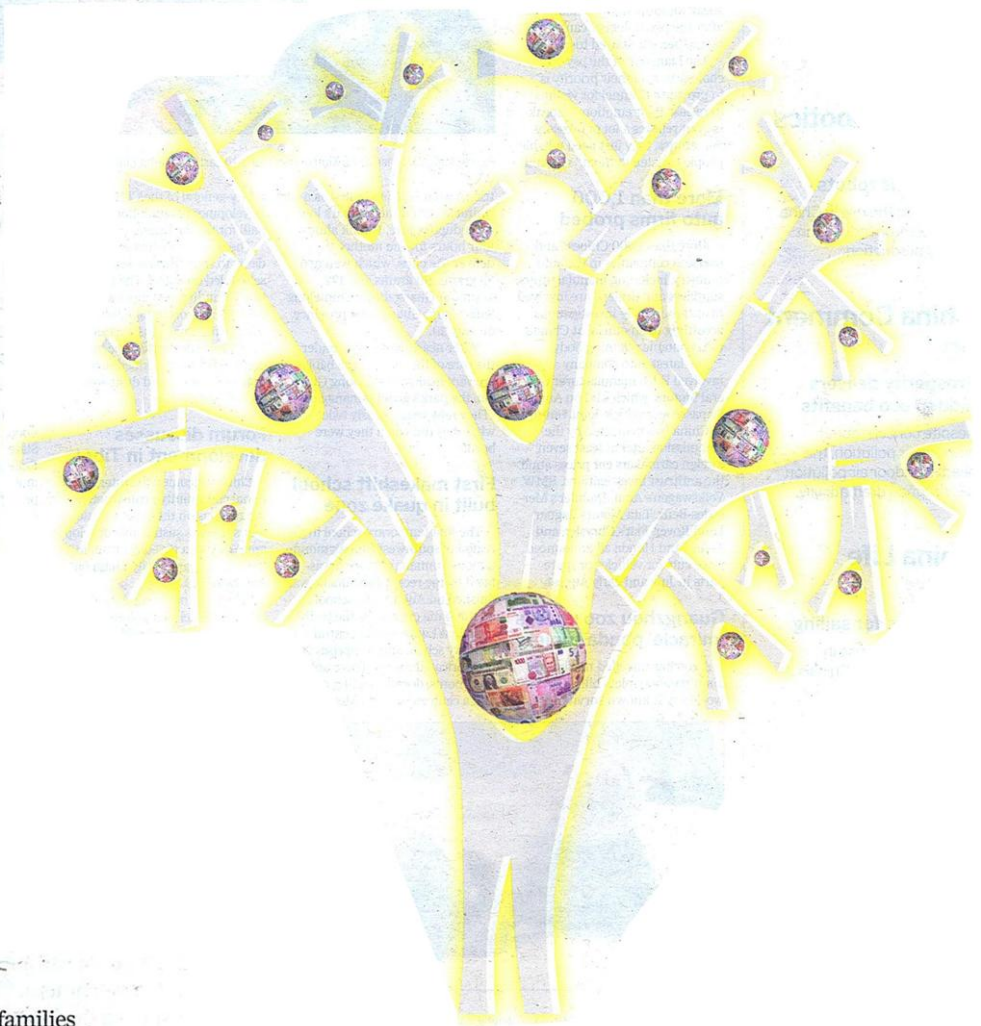
of its late founder Lim Goh Tong, to diversified Indonesian conglomerate Bakrie & Brothers.

Of course, not all familial firms grow to become huge conglomerates, but companies with kindred ties remain the backbone of the Southeast Asia economy.

“Family values and Asian cultural mores are significant factors in the perpetuation of families in business across generations,” Alexis du Roy de Blicquy tells *China Daily Asia Weekly*. “Entrepreneurs are now in the process of grooming or handing over the reins to the next generation.”

Du Roy de Blicquy is CEO of FBN International, a family business network with more than 6,500 members from 56 countries. He explains that family companies are bound by strong values and a common purpose in profit.

Angelyn Sng, director of membership and programs at FBN Asia, explains the importance of such companies to the



Asian economy.

“There are numerous examples of family businesses in Southeast Asia that are being run by members of the fourth-generation,” she says. This consistency in management means that such firms are more likely to keep an eye on the long-term future, she says. They are also a key source of private wealth creation in South Asia.

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Family: Trading in tradition

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Although the term 'family firm' can conjure up a picture of a small, privately run enterprise, many of the listed companies in the region are in fact family outfits, with family members as major shareholders.

In fact, across 10 Asian markets of the Chinese mainland, Hong Kong, India, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand, family-run outfits account for nearly half of all listed companies and 32 percent of total market capitalization, according to Hay Group, a management consulting firm.

What's more, they outperform non-family companies in many stock markets in the region.

A study by Credit Suisse, titled *Asian Family Businesses*, analyzed the performance of over 3,500 publicly listed family businesses in Asia and found that between 2000 and 2010, in many member countries of the Association of Southeast Asian Nations (ASEAN), family businesses outperformed non-family-controlled companies.

The survey reported that in Singapore, for example, family businesses have outperformed the local index over the last decade. "While investors in the Straits Times Index enjoyed a pleasing total return compound annual growth rate (CAGR) of 8.9 percent, investing in a family business basket returned 14.7 percent, equivalent to four times the initial investment in 2000," it said.

Family businesses account for 63 percent of listed companies in Singapore. Their market capitalization is 54 percent of the market total and 140 percent of nominal GDP — the second highest in Asia after Hong Kong.

The study also found that Malaysian family equities enjoyed a strong performance in the last decade. The Kuala Lumpur Composite Index generated a total return CAGR of 12.2 percent, but family business stocks were able to outperform this rate, returning a CAGR of 18.6 percent.

Total market capitalization of family businesses in Malaysia accounts for 67 percent of nominal GDP. They also account for 62 percent of listed entities. On employment, listed family businesses account for 53 percent of total corporate hiring, mainly in the sectors of consumer staples, consumer discretionary and industrial.

The Philippines is unusual, as 83 percent of total market capitalization is derived by family businesses, the highest ratio of all the 10 Asian economies. Corporate income tax contributions have grown strongly,

with family businesses responsible for an 80-90 percent share, and the contribution of family businesses to total government tax revenues is consistently the highest in Asia.

The proportion of jobs created by listed family businesses in the country is also high, at 88 percent of total employment, and is concentrated in the industrial and financial sectors. However, family businesses' percentage of nominal GDP is lower, at 66 percent.

In Indonesia, despite family firms representing 61 percent of all listed companies, the market capitalization of listed Indonesian family firms as a percentage of nominal GDP was a mere 24 percent.

According to Credit Suisse, Thai equities overall have increased more than fourfold over the last decade. Family businesses have enjoyed an even better return, growing more than five times at a CAGR of 20.2 percent.

"Sixty-six percent of Thai-listed companies are family businesses. The capitalization of family businesses as a share of the market is 48 percent and family firms' market capitalization as a share of nominal GDP is 42 percent," the bank said, adding that family businesses are responsible for 68 percent of total corporate hiring.

PricewaterhouseCoopers' family business survey, *Family firm: A resilient model for the 21st century*, shows

that family firms are robust, vigorous and successful. It says family firms are ambitious, entrepreneurial, and delivering solid profits, even in the continued uncertain economic environment.

The PwC report maintains that with longer-term thinking and a broader perspective, family firms are in many ways the epitome of 'patient capital'. Family businesses are willing to invest for the long-term, and do not suffer from the constraints imposed on their listed competitors by the quarterly reporting cycle and the need for quick returns.

The report also indicates that family firms feel a stronger sense of responsibility to create jobs, and will make more strenuous efforts than other companies to keep their staff, even during tough times, which translates into greater loyalty and commitment from those they employ.

"In some Asian economies, job creation for locals is spurred by thriving family businesses," Ng Siew Quan, private client services leader at PwC Singapore, tells *China Daily Asia Weekly*. "Family firms are generally more resilient to external variables that impact the economy. When a crisis hits, family business owners are in better capacity and have the authority to act decisively and sometimes in a more flexible manner. Recovery is relatively faster too."

Ng adds that family firms' long-

term approach and broader perspective in the business, coupled with tighter management of funds, provide some buffer to the consequences that Asian economies face in an economic downturn.

He is of the view that employment should not be the only factor in evaluating family businesses' contribution to the economy.

The other pertinent point mentioned is that creating success for family firms is "a more personal approach to business based on trust". Family firms are notable for strength of culture and values, and this belief

grows stronger with time.

The PwC report says that family firms "win business because they are closer to their customers, and have a more personal relationship with them — indeed that they are chosen precisely because they are not multinationals."

A KPMG report, *Performers: resilient, adaptable, sustainable*, states that family values have a major impact on both how the business is operated and the sense of belonging by many who work there. Family businesses are often perceived as having a positive and nurturing environment.

The report says: "Family firms' employees feel a sense of ownership for the organization, rather than just consider themselves as employees."

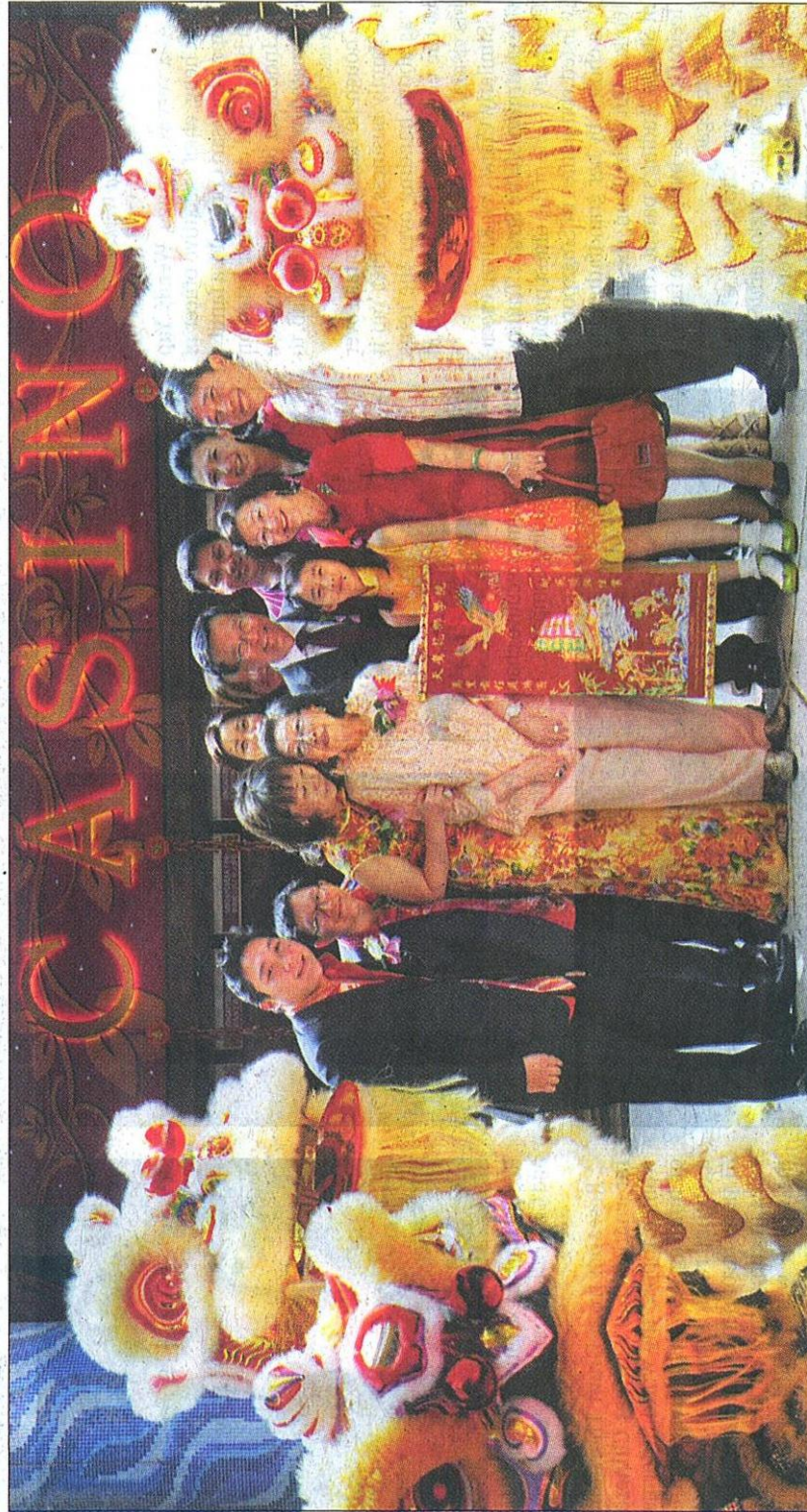
Nevertheless, the success of family businesses depends largely on their ability to transfer the mantle from one generation to the next. The issue of succession is increasingly significant in Asia where family businesses are younger than their US and European counterparts.

"Asian businesses are built on strong family ethos and a deep sense of family responsibilities that pass from one generation to another in preserving family values and wealth, so successful transition in Asian business families is critical to continued success and sustainability," says Annie Koh, an associate professor at Singapore Management University.

However, experts sound a note of caution. Although Asian society offers a strong cultural background for family cohesion and succession, increasing westernization puts a strain on this classic Asian family culture, as people from the younger generation who have been educated in the West often return with more individualistic aspirations.

Asian family businesses will need to adapt to ensure that they maintain their strength while absorbing new and non-traditional business ideas in the future.

Joachim Schwass, professor of family business at IMD, a business school in Switzerland, says: "The key challenge for most Southeast Asian family businesses is the adoption of a new family business model. Competence and professionalization are needed."



AFP

Lim Kok Thay (center, in suit), chairman of Genting Group, poses with his family after opening the company's casino, Resorts World Sentosa, in Singapore in 2010. The Malaysian conglomerate is one of many big businesses in the region that remains under the control of the founding families.