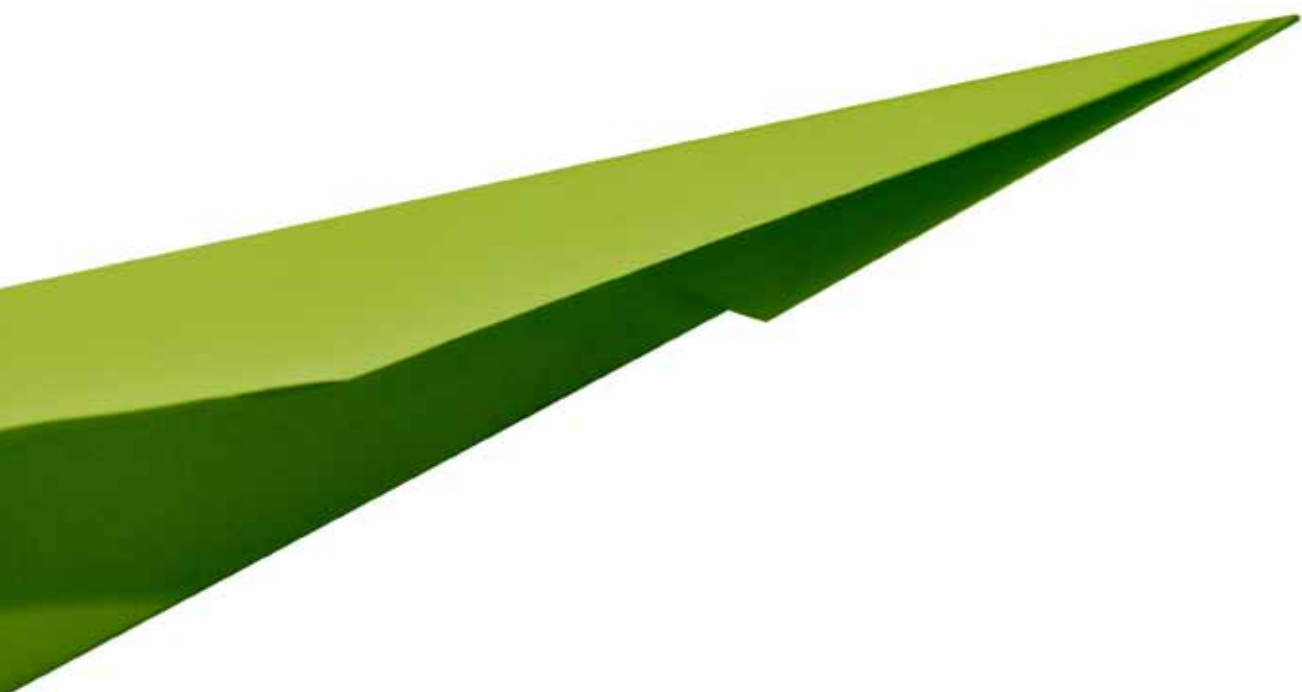


Deloitte.



Asian Business
Families Succession
Going the Distance
with the Next Generation

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Foreword by BFI @ SMU

This inaugural Asian Business Families Research Survey 2013 is most timely as business families in the region enter an important stage of their development. Unlike business families in the US and Europe with several generations of successful and sustained transitions, many Asian business families are, in comparison, in the early stages of their life cycle with most of them in their 2nd and/or 3rd generations. As such, Asian business families are grappling with the challenges and constraints that are intimately related to management succession.

Given this context, BFI @ SMU was established in 2012 to be Southeast Asia's first regional business family-centric institute focused on serving the educational, engagement and research needs as well as the aspirations of business families in the region. BFI @ SMU is privileged to be able to partner with Deloitte Southeast Asia to design, disseminate and deliver the inaugural Asian Business Families Succession Research Survey Report ("Research Survey"). This Research Survey provides cutting-edge thought leadership on current succession-related sentiments of business families as well as the strategies and structures associated with next generation ("Next Gen") training and how non-family advisors can facilitate business family transitions.

BFI @ SMU would not have been able to undertake this research endeavor if not for the support of our founding families, our alliance families, and our network of Asian and global business families who participated in our online Research Survey. These business families have provided us with critical resources and strategic advice that have helped us to persevere with this Research Survey. Our gratitude also extends to our SMU President, Professor Arnoud De Meyer, who encouraged us to pursue this research initiative as well as to my team at BFI @ SMU who worked tirelessly with Deloitte Southeast Asia to produce this ground-breaking Research Survey.

Given the limited research data in Asia on business family management succession, the knowledge that we have been able to gather from this pioneering Research Survey will be both valuable and insightful in facilitating best practices in succession planning.



Professor Annie Koh

Vice President of Business Development and External Relations

Academic Director of Business Families Institute @ Singapore Management University

Foreword by Deloitte Southeast Asia

Asian businesses are built on strong family traditions and a deep sense of family responsibilities that pass from one generation to another in preserving family values and wealth. We are honoured to partner BFI @ SMU, the first regional business family centre, in undertaking research on Asian business family succession and understanding the current thoughts that will ensure the continuity of the strong foundation in Business Families.

There seems to be a common thread amongst Asian business families where the emphasis is placed on the next generation to continue to manage the business. In this respect, business families understand that training and development needs are of paramount importance in ensuring success of the next generation. Whilst education, training and development needs have always been high on the agenda, it is interesting to note that more business families today are relying on trusted professionals in management roles or using non-family advisors in helping with the transition to the next generation.

Bringing in wider professional experience and mentoring helps in ensuring the next generation succeeds in taking the business to the next level in the areas of new markets, mergers and acquisitions and joint ventures.

I would like to thank SMU for their leadership in this business families succession research and also to BFI @ SMU's founding families, alliance families and the many business families that have participated in this survey. The inputs provided place this research at the forefront of business families succession planning.

We at Deloitte are delighted to have gained such rich insights on business families succession planning. We understand the need for continued development and in providing guidance, advice and mentoring to the next generation. We look forward to playing an important role in supporting business families in their succession planning process.

I hope you will find this research survey insightful and I wish you the very best in your succession planning.



Tam Chee Chong
Regional Managing Partner
Financial Advisory
Deloitte Southeast Asia

Executive Summary of Key Findings

Asian business families are at a critical stage of management succession where next generation training and development is imperative and for which trusted non-family management and/or advisors have an essential role to play in facilitating these business family transitions.

1. Next Generation

Business families find it important that their Next Gen continues to manage the business.

- 1.1 Generation 1 prefers a family member to succeed them in the management of the business and yet these founders are only likely to cede management control in their 70s.
- 1.2 Business families are challenged by the lack of talent inventory and/or lack of readiness among the Next Gen to lead the business with commitment, passion and competence.
- 1.3 Development appears to be the key stage of any management succession process with most business families spending at least 5 to 10 years training their Next Gen.

2. Training and Development

Business families are open to extensive training opportunities and receptive to enhanced developmental support.

- 2.1 A majority of business families indicated that they had immediate training needs and required support in the area of family development.
- 2.2 While Generation 1 is seeking training to facilitate the stewardship and sustainability of family assets, successive generations are pursuing support related to family offices.
- 2.3 Indonesian, Singaporean and Thai business families indicated that their most pressing training need in terms of succession planning is initiation and development.

3. Non-Family Management and Advisors

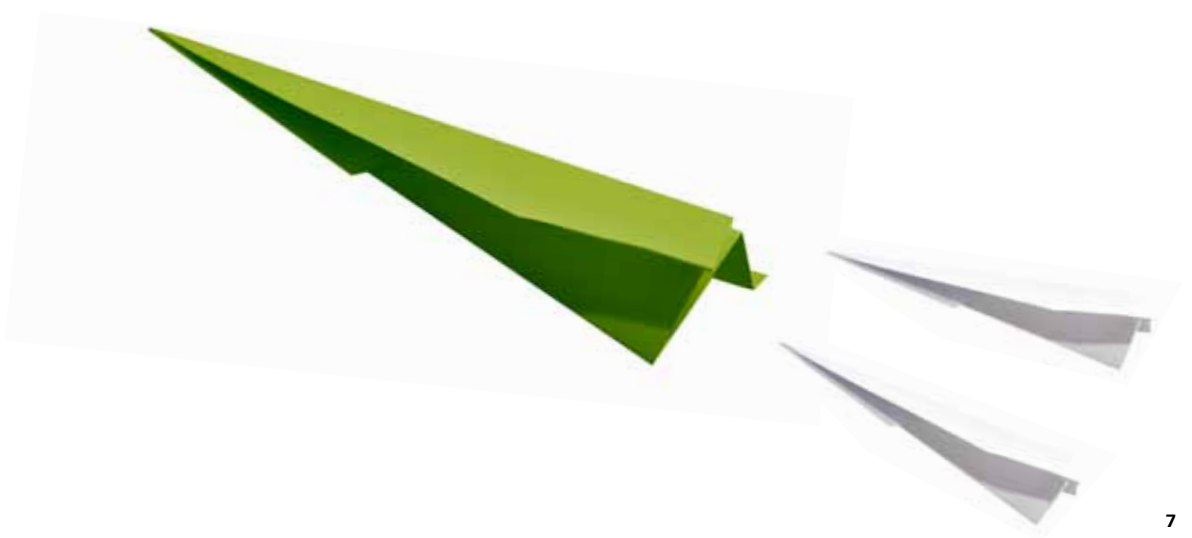
Non-family management and/or advisors can play a crucial role in balancing the needs of the business and the family as well as in developing the Next Gen for succession.

- 3.1 Business families value non-family management who are able to balance the needs of the business and the family, and to effect change management to grow the family business.
- 3.2 Business families are open to and in favor of non-family advisors who are able to facilitate the development and mentorship of their Next Gen for transition.
- 3.3 Involving non-family advisors in a succession plan may help to objectively balance the collective interests of business family members.

4. Transitions of Business Families

Succession transition is a medium-term challenge for business families and could be managed constructively with relevant non-family management and/or advisors.

- 4.1 Non-family management and/or advisors can play an essential role in helping business families manage their business family transitions smoothly and successfully.
- 4.2 Business family transitions should be aligned to the relevant business development cycle such that the appropriate family and non-family management are cultivated in tandem.
- 4.3 Business development priorities differ from country to country and non-family management and advisors need to be sensitive to such variance.



Key Finding 1 – Next Generation

Business families find it important that their Next Gen continues to manage the business.

89% of business families surveyed indicated that management succession is important to them (see Figure 1.1). Additionally, 81% of them believe that their Next Gen will be able to take over the family business (see Figure 1.2).

Is business family management succession important to you?

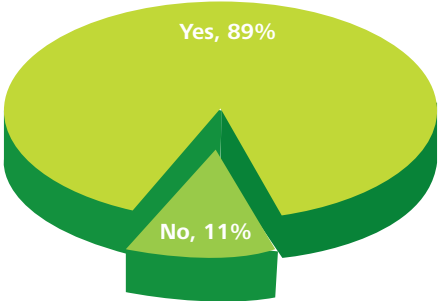


Figure 1.1

The business family believes that the next generation will be able to take over the business:

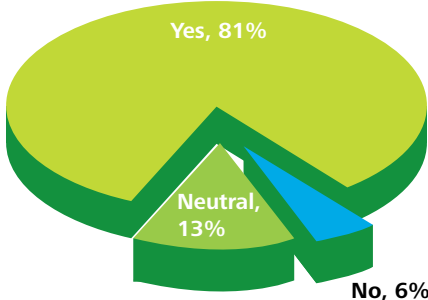


Figure 1.2

*Percentage figures may not add up to 100% due to rounding

Key Finding 1.1

Generation 1 prefers a family member to succeed them in the management of the business and yet these founders are only likely to cede management control in their 70s.

Interestingly, 77% of Generation 1 respondents have a distinct preference for a family member to continue managing the family business. They were particularly keen for their Next Gen to succeed them and take over the management of the family business. This is understandable as the founding generation usually has the closest ownership connection and management relationship to the business that they had built from scratch. In comparison, 65% of Generation 2 respondents indicated that they are open to the possibility of either a family member or a non-family member having management oversight of the family business (see Figure 1.1.1). This suggests that successive generations tend to take a more pragmatic approach and will do what is best for their business. This sentiment may be reflective of successive generations, where most might be owner-shareholders of the family business and possibly distinct from management.

The issue of Generation 1 respondents letting go was also evident in the Research Survey with 62% of them indicating that the current generation should only transition out of management control when they are in their 70s (see Figure 1.1.2). There is wisdom in having the incumbent generation stay on in the family business to provide strategic advice. However, successive generations of the business family seem keen to have the incumbent generation transition out of their management role earlier (i.e. in their 50s and 60s). On the flip side, there seems to be consensus across generations that the incoming generations should take over management control when they are in their 30s to 50s (see Figure 1.1.3). This is when they are in the prime of their careers. However, this would not be possible if the incumbents continue to have management control for an extended period of time.

Who should succeed the current generation and take over the management of the family business?

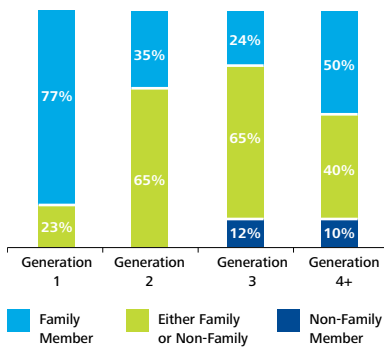


Figure 1.1.1

When should the current generation transition out of controlling the management of the business family?

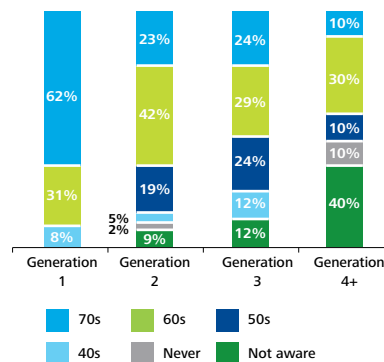


Figure 1.1.2

When should the next generation take over control of the management of the business family?

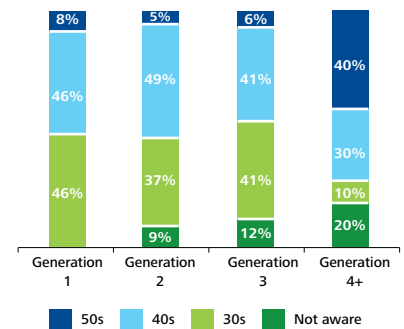


Figure 1.1.3

Key Finding 1.2

Business families are challenged by the lack of talent inventory and/or lack of readiness among the Next Gen to lead the business with commitment, passion and competence.

When asked about the challenges that prevent a business family from developing a succession plan, 66% of the respondents indicated that the most prevalent challenge is the lack of inventory among the Next Gen and the associated difficulties of identifying capable Next Gen talent. It was also observed that the highest rated concern (57%) is sibling favoritism and/or rivalry which may lead to the lack of consensus. This could also have a corresponding impact on the development of potential Next Gen talent (see Figure 1.2.1).

The concern about the lack of Next Gen talent inventory is also borne out when the respondents were asked about the challenges of involving only business family members in a succession plan. On an aggregate basis, 66% of the respondents shared a similar concern that the Next Gen may not be ready to lead and manage the family and the business (see Figure 1.2.2). The issue may not be in terms of the quantity of Next Gen but in the attributes of the Next Gen who would be able to lead and manage the family and the business.

In this regard, the next query that would arise relates to the critical attributes that a potential business family successor should possess. Overwhelmingly, 90% of the respondents unanimously stated that the most significant qualifying criteria would be a Next Gen successor's commitment, passion and competence to lead both the business family and the family business (see Figure 1.2.3). This is validated by another survey result which indicated that the timeliness of a Next Gen successor to be selected is dependent on his/her sense of duty and responsibility to take on the mantle of leading and managing the family business (see Figure 1.2.4).

Figure 1.2.1
What do you think are the challenges that prevent a business family from developing a succession plan?

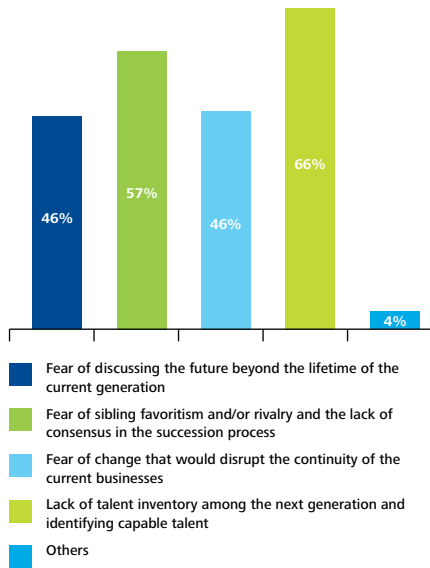


Figure 1.2.2
What are the challenges of involving only business family members in a succession plan?

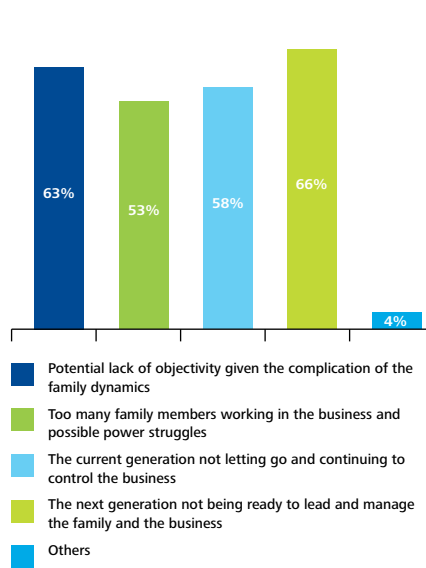


Figure 1.2.3
What are the critical qualities that a potential business family successor should possess?

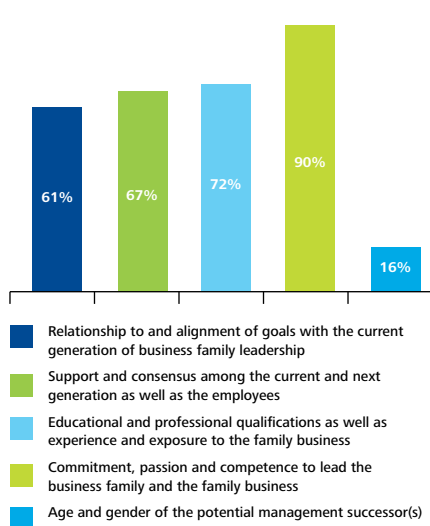
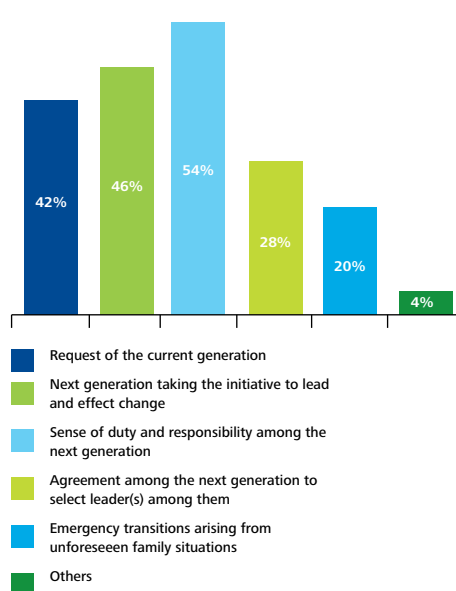


Figure 1.2.4
When is it timely to start the successor selection process?



*Percentage figures may not add up to 100% as multiple options were allowed

Key Finding 1.3

Development appears to be the key stage of any management succession process with most business families spending at least 5 to 10 years training their Next Gen.

Key Stages of a Management Succession Process

Initiation	Development	Selection	Transition	Review
<ul style="list-style-type: none">• Introducing the next generation to the business	<ul style="list-style-type: none">• Training the next generation through education, experience and exposure	<ul style="list-style-type: none">• Electing who among the next generation should continue managing the business	<ul style="list-style-type: none">• Timely and orderly transfer to successor(s) of control and management	<ul style="list-style-type: none">• Monitor and review succession plan and prepare for unforeseen situations

Given the challenges and criteria identified above, it is not surprising that almost half (46%) of the business families surveyed indicated that they are in the midst of the developmental stage of their management succession process (see Figure 1.3.1). This finding is especially instructive when we analyze the country comparisons of Indonesia, Singapore and Thailand which had the most respondents. 60% of Singaporean business families indicated that they were in the developmental stage whereas 42% of Thai Business Families indicated that they were in the transition stage. Indonesian business families were evenly split between the developmental and transition stages (see Figure 1.3.2).

These findings could be rationalized on the basis that younger business families are still familiarizing themselves with the developmental stage of a management succession process. In comparison, older business families would already have prior expertise in developing their Next Gen through education, experience and exposure which is a crucial step in any successful and sustained management succession process.

Further, given that development is a key stage of any management succession process, it is not surprising that most of the business families in Singapore and Thailand indicated that the time frame for the developmental stage would be over 5-10 years. On average, the findings indicated that a full cycle of a single management succession process would take at least 25 years (see Figure 1.3.3).

Figure 1.3.1
Which stage of the succession planning process is your business family currently engaged in?

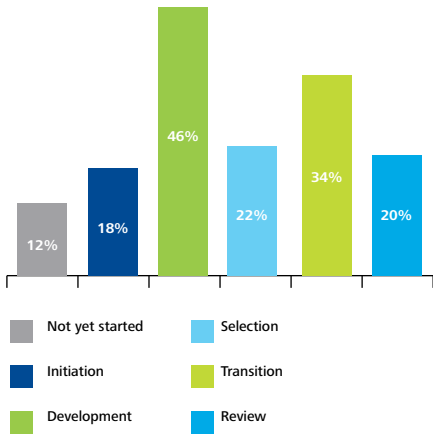


Figure 1.3.2
Which stage of the succession planning process is your business family currently engaged in?

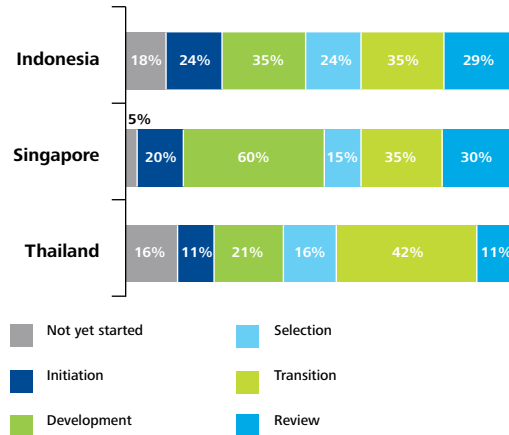
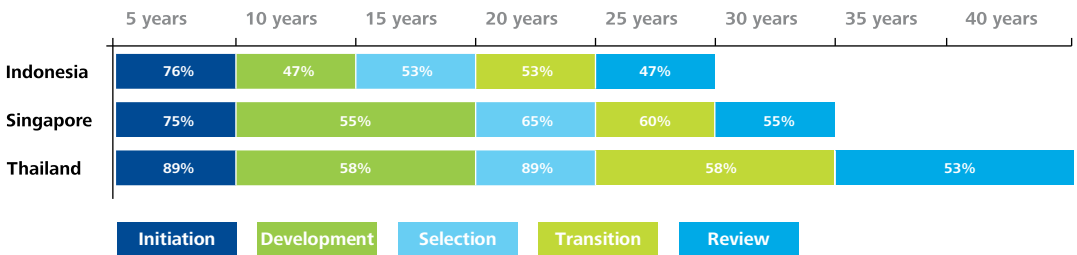


Figure 1.3.3
Succession stages (by country)



*Percentage figures may not add up to 100% as multiple options were allowed

Business Family Interview – Singapore

Sunray began humbly as a family carpentry business in 1980 with a handful of workers making simple pieces of furniture. The company developed a comprehensive interior contract business with the incorporation of Sunray Woodcraft Construction (“Sunray”) in 1987. Today, it has grown substantially and developed into one of the largest interior builders and solution providers in Singapore for various high profile food & beverage, hospitality and institutional clients with projects that include Marina Bay Sands and Resorts World Sentosa. It has been one of Singapore’s market leaders for interior fit-out works since the late 2000s. Their aggressive regional growth and development plans are supported by more than 1,000 employees and contractors from more than 10 countries.

Sunray is the quintessential traditional Chinese family business with immediate, extended and even distant family members and relatives involved in the running of the business. While Sunray promotes a congenial family environment with strong family ties, the succession challenge lies in the selection criteria of the next generation of family successors. Among other criteria, there are traditional sentiments that surname, seniority and skillsets (in that particular order) should determine the next successor. However, there is now openness to change the order of priorities to skillsets, seniority and surname that would determine succession plans moving forward.

Business Family Interview – Malaysia

The Ann Joo Group of Companies (“Ann Joo”) was started primarily as a scrap metal dealer in 1946 by the late Mr. Lim Kah Seng. Ann Joo is now substantially owned by the 2nd Generation, principally, Mr. Lim Seng Chee and Mr. Lim Seng Qwee. Ann Joo’s top management team is primarily comprised of various 3rd Generation members. These include the founder’s eldest grandson, Dato’ Lim Kiam Lam, who is presently the Group Executive Chairman, and his cousin, Dato’ Lim Hong Thye, who is the Group Managing Director. Other 2nd, 3rd, and 4th Generation family members are also involved in Ann Joo’s business which currently has about 130 family-related shareholders.

Through the Lim family’s commitment to the business, Ann Joo has grown to become one of the most efficient integrated steel conglomerates in Southeast Asia. It reached a significant milestone in 1996 when it was listed on the Main Market of Bursa Malaysia Securities Bhd. Ann Joo has since established expertise in its three key divisions – manufacturing, trading, and investment holding – making it one of the region’s top manufacturers, distributors, and stockists of a wide range of steel products, with a growing presence in India, the Middle East, and Australia.

Dato’ Lim Hong Thye, Group Managing Director, joined Ann Joo in his late 20s after earning an overseas university education and gaining exposure at an international audit firm. Among his various accomplishments, he is attributed with acquiring Ann Joo Steel Berhad in 2000 and transforming it into one of the most efficient and profitable steel mills in Southeast Asia.

“It is up to family members to rise to the challenges they face and earn the right to succeed. As the saying goes 'The first generation grows it, the second generation maintains it, and the third generation expands it!'”

Fang Li Wei
Financial Advisory Executive Director
Deloitte Southeast Asia

Key Finding 2 – Training and Development

Business families are open to extensive training opportunities and receptive to enhanced developmental support.

Given the significance of the developmental stage of any management succession process, business families surveyed indicated that they require further training and support in the three areas of family, investments and succession.

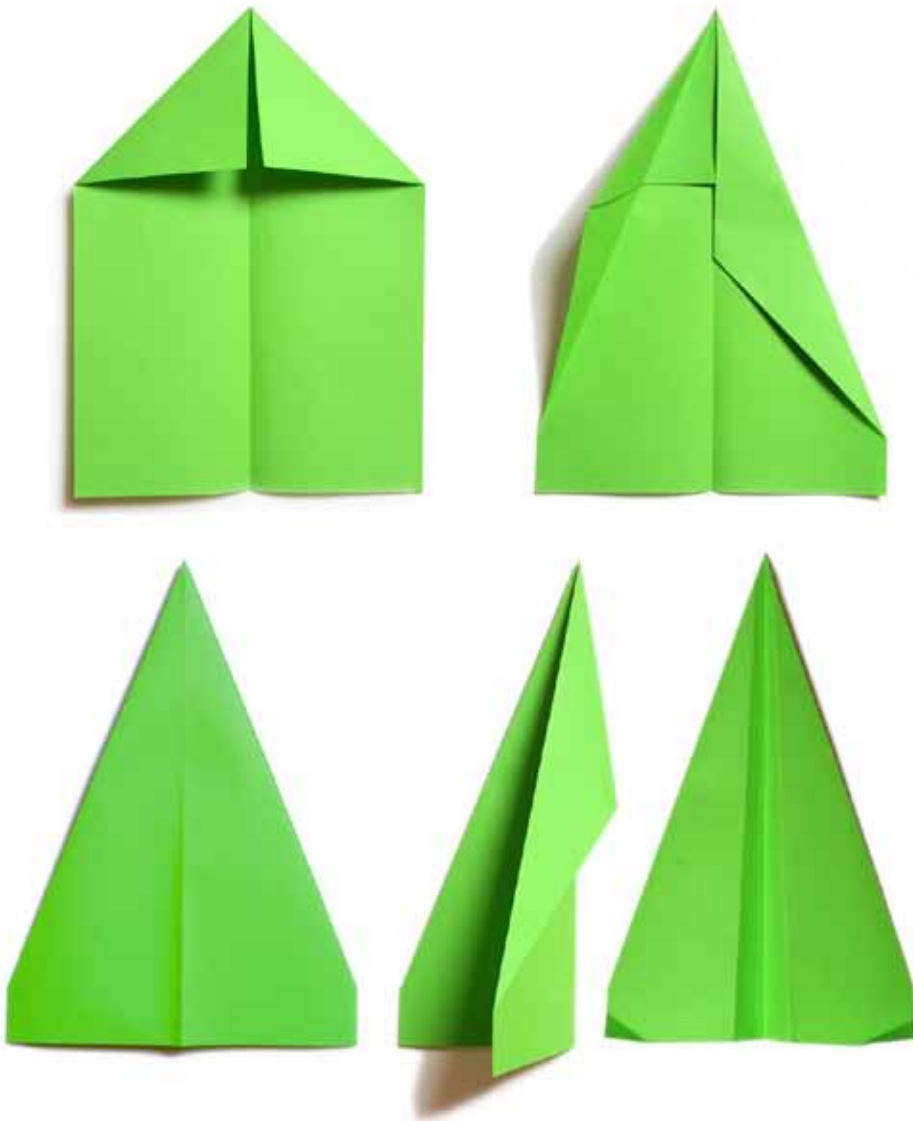
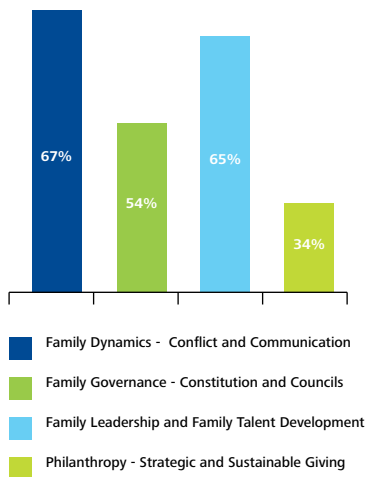


Figure 2.1.1
What type of training and support do you require for family-related issues in the short term (1-2 years)?



*Percentage figures may not add up to 100% as multiple options were allowed

Key Finding 2.1

A majority of business families indicated that they had immediate training needs and required support in the area of family development.

Given the significance of the developmental stage of any management succession process, business families require training and support, in the short term (1-2 years), in the following areas related to family development:

- Family Dynamics – Conflict and Communication;
- Family Governance – Constitution and Councils;
- Family Leadership and Family Talent Development ;
- Philanthropy – Strategic and Sustainable Giving.

The development of business family talent often starts within the business family, specifically with parents and extended family, providing the necessary mentorship and enablement. This can be reinforced with external training and support. For instance, it is accepted that most business families are strongly relational in terms of their long-term family and business dealings. As such, there is a need to build strong communications skills within business families in order to pre-empt conflict. Additionally, the development of family governance structures and strategies may also help manage conflict. Furthermore, building up skill sets in the areas of family leadership and family talent development will also facilitate succession. In this regard, some business families use philanthropy to grow and develop leadership abilities and aptitude in their Next Gen.

Key Finding 2.2

While Generation 1 is seeking training to facilitate the stewardship and sustainability of family assets, successive generations are pursuing support related to family offices.

In relation to investment-related training needs, our Research Survey revealed that 83% of the Generation 1 respondents placed the highest priority on the stewardship and sustainability of family assets in the short term (1-2 years) (see Figure 2.2.1). In comparison, successive generations indicated that their highest priority in terms of immediate training needs relate to the strategies, structure and set-up of family offices. This finding substantiates our empirical analysis that the founding generation often seeks the long-term growth of the operating businesses. However, the successive generation is keen to explore the establishment of a family office to consolidate the family’s investment platform. This is understandable as successive generations seek to institutionalize their family’s wealth platforms in order to manage the needs of multiple stakeholders and competing priorities including seeding investments for the Next Gen.

Inssofar as medium term (3-5 years) training needs are concerned, there is an equal spread of priorities between the generations with trans-generational entrepreneurship, as well as family investments – preservation and growth emerging as important training need, these themes often go hand-in-hand as business families often need to reinvent themselves and their businesses in order to maintain a constant trajectory for both growth and relevance (see Figure 2.2.2).

Figure 2.2.1
What type of training and support do you require for investment-related issues in the short term (1-2 years)?

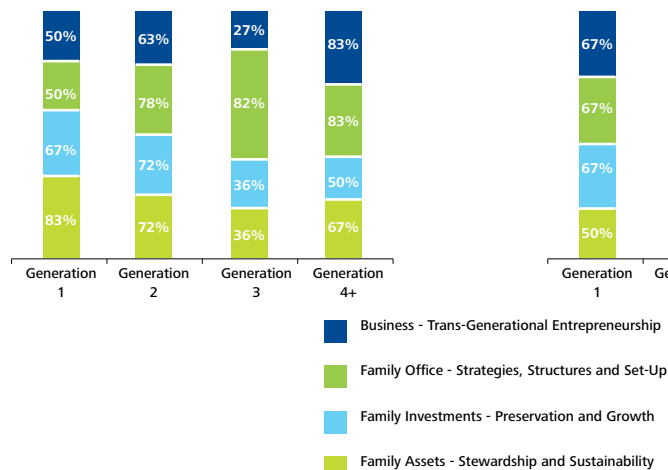
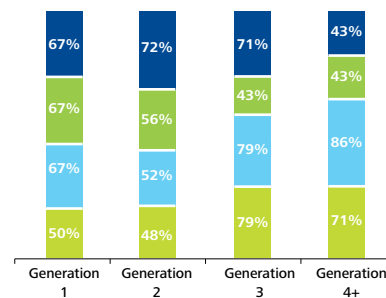
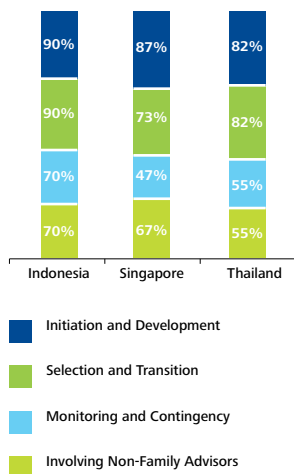


Figure 2.2.2
What type of training and support do you require for investment-related issues in the medium term (3-5 years)?



*Percentage figures may not add up to 100% as multiple options were allowed

Figure 2.3.1
What type of training and support do you require for succession-related issues in the short term (1-2 years)?



*Percentage figures may not add up to 100% as multiple options were allowed

Key Finding 2.3

Indonesian, Singaporean and Thai Business Families indicated that their most pressing training need in terms of succession planning is initiation and development.

Having analyzed the succession-related training needs and support across Indonesia, Singapore, and Thailand, all three countries had rated succession planning – initiation and development – as their most immediate training need. Indonesian and Thai Business Families also indicated that the next phase of succession planning – selection and transition – is also an area of training and support that they require in the next 1-2 years. While initiation and development often relates to family development and the building up of family-related competencies in the areas of communication and consensus-building, selection and transition often relates to the building up of business-related competencies in order for the Next Gen to lead the family business. Last but not least, the monitoring and contingency phases often involve non-family management and/or advisors as they pertain to building up business-continuity competencies with a view to allowing the incumbent generation to cede day-to-day management control, all of which facilitates a successful and sustained business family management succession.

“Initiative and development are equally important. Without either one, none can succeed in dynamic environment. If you want one year of prosperity, grow grain. If you want ten years of prosperity, grow trees. If you want one hundred years of prosperity, grow people.”

Thavee Thaveesangsakulthai
Financial Advisory Partner
Deloitte Southeast Asia

Business Family Interview – Vietnam

Refrigeration Electrical Engineering (“REE”) was a Vietnamese state-owned company established in 1977. Madam Nguyen Thi Mai Thanh (“Mdm. Nguyen”) commenced her career at REE in the 1980s and she was eventually handpicked by her then-Chairman to be his successor culminating in her appointment as Chairwoman and Chief Executive Officer of REE in 1993. Mdm. Nguyen continues to hold these appointments to-date. Under her leadership, REE became the first equitized company in Vietnam in 1993 and REE was the first to list its shares on the Ho Chi Minh Stock Exchange in 2000. Mdm. Nguyen also pushed to diversify REE’s business and ventured into real estate development in the early 2000s. Currently, REE’s principal activities also include Mechanical and Electrical Services (M&E) as well as strategic investments in infrastructure sectors. Collectively, the Nguyen family is one of REE’s major shareholders.

Mr. Nguyen Ngoc Thai Binh (“Mr. Binh”) is Mdm. Nguyen’s elder child and only son. He graduated with a Bachelor’s Degree in Economics from the University of Virginia, USA. He then contemplated staying on the USA but was persuaded otherwise by his mother who said, “You should return to Vietnam. It is your home and there is no shortage of opportunities to establish yourself and help your country develop.” Mr. Binh returned to Vietnam in the mid 2000s and commenced his external exposure at HSBC for about 5 years. Around 2009, REE needed to fill the vacant role of a Chief Financial Officer. Mdm. Nguyen was of the opinion that Mr. Binh was the best person for the role and he accepted this responsibility to help his mother and to help REE. Although there was some initial shareholder dissent, Mr. Binh managed to assert his capabilities and competence early on by successfully negotiating the divestment of a REE Thermal Project, and guiding REE to issue convertible bonds to foreign investors, the first Vietnamese company to do so.

“Large family businesses that survive many generations demonstrate a strong sense of purpose. Over the years, they develop principles that govern issues such as the appointment of the CEO, the composition and election of the company's board and the conditions under which family members can (and can't) work in the business.”

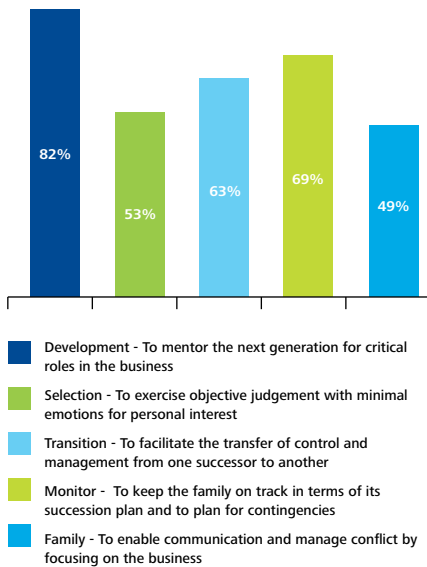
Thinh Pham
Financial Advisory Partner
Deloitte Vietnam

Key Finding 3 – Non-Family Management and Advisors

Non-family management and/or advisors can play a crucial role in balancing the needs of the business and the family as well as in developing the Next Gen for succession.

82% of the business families surveyed indicated that non-family advisors are valuable in developing and mentoring their Next Gen for critical roles in the family business (see Figure 3.1).

Figure 3.1
What are the benefits of involving non-family advisors in a succession plan?



*Percentage figures may not add up to 100% as multiple options were allowed



Key Finding 3.1

Business families value non-family management who are able to balance the needs of the business and the family, and to effect change management to grow the family business.

Conventional wisdom suggests that business families often appoint non-family management when they are faced with a lack of internal family talent, i.e. a “push” factor. While it may not be entirely true, there may be other “pull” factors influencing business families to tap on external non-family talent. In fact, 54% of Generation 1 respondents indicated that they would appoint non-family management if they are able to balance the needs of the business and the family, and 56% of Generation 2 respondents will do likewise if an external resource is able to effect change management to grow the business (see Figure 3.1.1). Our Research Survey also confirms that a high proportion of business families across generations would consider employing non-family management to lead the family business if there are no suitable family successors. It would appear that this option is even more acceptable to business families than selecting from their pool of extended family members (see Figure 3.1.2).

Figure 3.1.1
What would compel your business family to appoint a non-family member to run the family business?

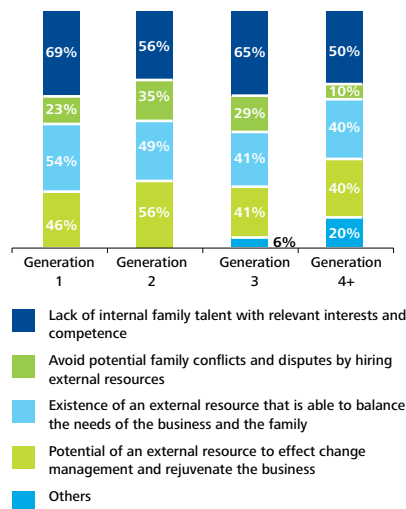
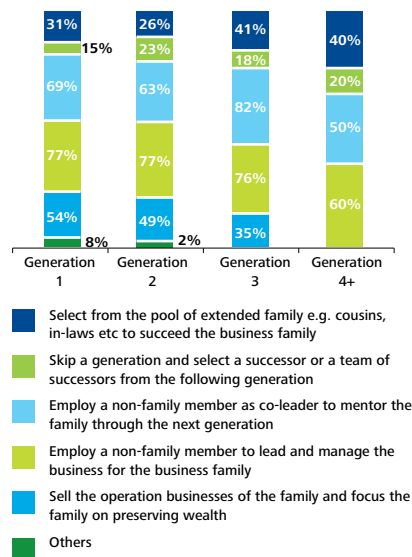


Figure 3.1.2
If no immediate family member is a suitable successor, which of the following options do you think you would consider?



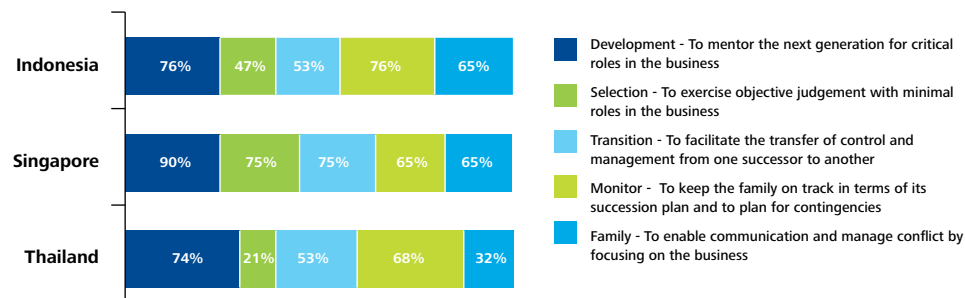
*Percentage figures may not add up to 100% as multiple options were allowed

Key Finding 3.2

Business families are open to and in favor of non-family advisors who are able to facilitate the development and mentorship of their Next Gen for transition.

We had earlier concluded that the developmental stage of a management succession process is crucial to most business families. With this in mind, we also noted that business families value non-family advisors who are able to develop and mentor their Next Gen for critical roles. In fact, the corroborating evidence is especially stark when we analyze and compare the country-specific distribution of Indonesia, Singapore, and Thailand. Across these three countries with the most respondents, the highest ranking “benefit” of having non-family advisors was their ability and aptitude to mentor the Next Gen for critical roles in the family business. In other words, business families value non-family advisors who are able to facilitate successful and sustained transitions within business families by enabling the Next Gen to learn and lead the family business.

Figure 3.2.1
What are the benefits of involving non-family advisors in a succession plan?



*Percentage figures may not add up to 100% as multiple options were allowed

“Family businesses usually had a non-family advisor that the patriarch or first generation relied upon. These were usually the early days book-keepers who helped set up companies and kept the accounting and tax records. As times passed and business grew bigger and more international, the need for more sophisticated advisors arose – qualified accountants, lawyers and bankers to name a few. Inevitably these connections would grow beyond customer/client relationships to more trusted advisors and mentors for the second generation.”

Suresh Marimuthu
Financial Advisory Partner
Deloitte Southeast Asia

Key Finding 3.3

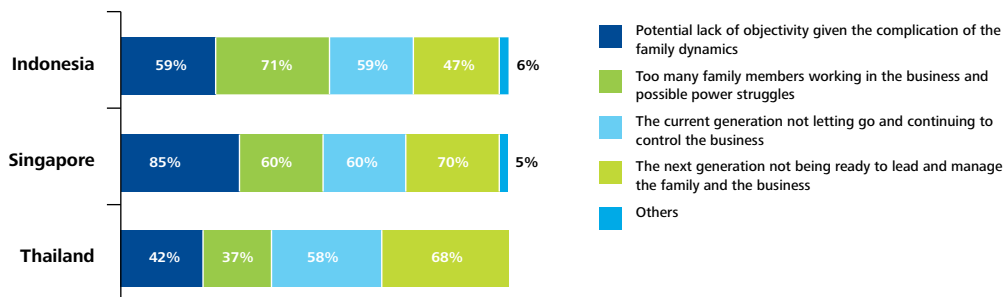
Involving non-family advisors in a succession plan may help to objectively balance the collective interests of business family members.

When business families were asked to consider the challenges of involving *only* business family members in a succession plan, they cited various difficulties which could be resolved when they turn to non-family advisors. Business families from Indonesia, Singapore, and Thailand rated the following as their top-most challenges if they were to involve only family members in succession planning (see Figure 3.3.1):

- Indonesia (71%) - Too many family members working in the business and possible struggles;
- Singapore (85%) - A potential lack of objectivity given the complication of family dynamics;
- Thailand (68%) - The Next Gen not being ready to lead and manage the family business.

We suggest that trusted non-family advisors can play a critical role in providing an impartial, detached, neutral and independent perspective to resolve the foregoing challenges. In fact, a trusted non-family advisor will often be able to balance the potentially subjective views of family members who may be emotionally invested in the succession process. Moreover, the findings state that it is beneficial for non-family management and/or advisors to develop and mentor the Next Gen (rather than for immediate family members to do so). This is probably because non-family management may be more objective in their assessment of the Next Gen. This, in turn, could better facilitate the development of relevant Next Gen capable of leading and managing the family business.

Figure 3.3.1
What are the challenges of involving only business family members in a succession plan?



*Percentage figures may not add up to 100% as multiple options were allowed

Business Family Interview – Indonesia

Kamadjaja Logistics was founded by Hura Kamadjaja in 1968 with his simple but shrewd perception that there was a need for delivery services from Surabaya to the various Eastern Indonesian islands. With that conviction, Pak Hura's perseverance paid off in the early 1980s when he was asked to distribute Unilever products from Surabaya to other cities in the vicinity. In 1986, when Unilever elected to establish a base in Manado, Pak Hura was offered the opportunity to invest in a distribution center to serve Unilever and since then there had been several highly successful distribution centers. To this day, Unilever continues to be one of Kamdjaja Logistics' top customers, together with other MNCs such as Nestle, Shell, etc. as well as local Indonesian companies.

Ms. Ivy Kamadjaja, Kamadjaja Logistics' Chief Marketing Officer, who is also the daughter of Pak Hura, explained that as a logistics company, they are trying to provide more than the conventional suite of logistical services. In fact, she states emphatically that Kamadjaja Logistics is trying to focus on supply chain management functions by being a third-party logistics provider (3PL) that provides integrated operational, warehousing and transportation services on a bespoke basis. As such, it is now a dominant logistics company in Indonesia with one of the largest networks, managing 20 distribution centers with a further 300 destination points throughout Indonesia. It is not only a market leader at the national level, but it is also priming itself for regional expansion.

Ms. Kamadjaja was the first of her father's three children who joined Kamadjaja Logistics in 1998 and she shared her experience....

“When I returned to Indonesia after graduating with a degree overseas, my father was not keen for me to work at Kamadjaja Logistics immediately. This was also true for my brothers. As such, I worked at a local bank to gain experience. My father felt that it was important that we worked for others before we returned to the family business and even then, he made us report to long-standing employees to learn the ropes and prove ourselves before he would allow us to take on leadership positions. In fact, Kamadjaja Logistics has always made it a point to tap on the expertise of professionals to facilitate its growth beyond a family business. One of the many examples is the family's partnership with Falcon House Partners, a Private Equity Firm, in order for Kamadjaja to help fund our capital expansion and institutionalize and grow our franchise including regionalization.”

Key Finding 4 – Transitions of Business Families

Succession transitions are a medium term challenge for business families and could be managed constructively with relevant non-family management and/or advisors.

48% of the business families surveyed indicated that succession planning is a medium term (3-5 years) challenge as shown in Figure 4.1, especially since 67% of them anticipate transferring the management of the family business to other family members in the medium term (see Figure 4.2).

Figure 4.1
What are the challenges for your business for the medium term (3-5 years)?

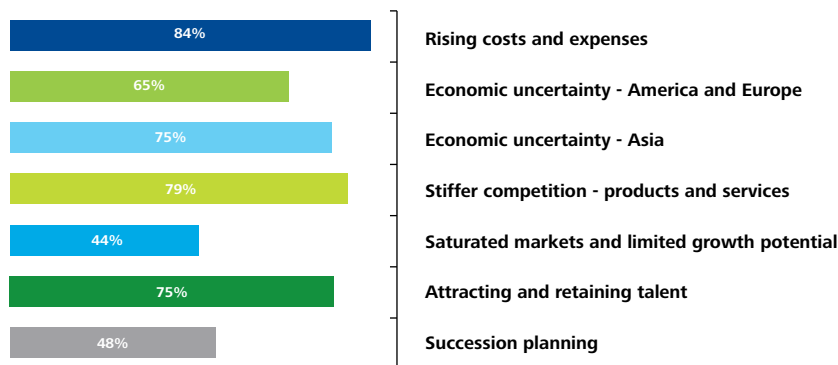
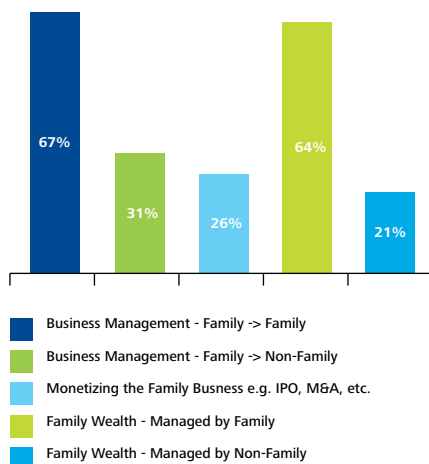


Figure 4.2
Does your business family anticipate transferring the (a) management of the business, and (b) management of the family business / wealth in the medium term (3-5 years)?



*Percentage figures may not add up to 100% as multiple options were allowed

Key Finding 4.1

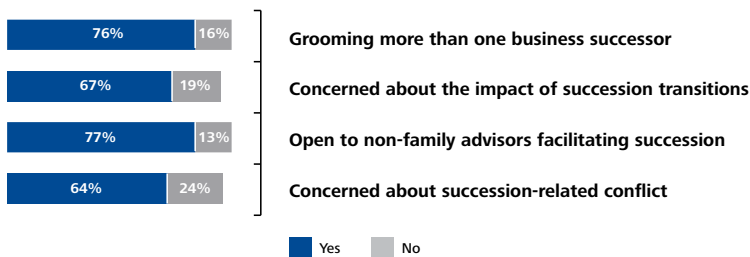
Non-family management and/or advisors can play an essential role in helping business families manage their business family transitions smoothly and successfully.

In terms of business family transitions, we have noticed various trends:

- 76% are grooming more than one business family successor;
- 67% are concerned about the impact of succession transitions;
- 77% are open to non-family advisors facilitating succession;
- 64% are concerned about succession-related conflicts.

Given these highly rated concerns, non-family advisors can indeed play an essential role in (a) developing various Next Gen successors, (b) providing objectivity to facilitate a smooth succession, and (c) managing succession-related conflict constructively (see Figure 4.1.1).

Figure 4.1.1
Sentiments / Viewpoints



*Percentage figures may not add up to 100% as respondents could elect not to respond to these statements

Key Finding 4.2

Business family transitions should be aligned to the relevant business development cycle such that the appropriate family and non-family management are cultivated in tandem.

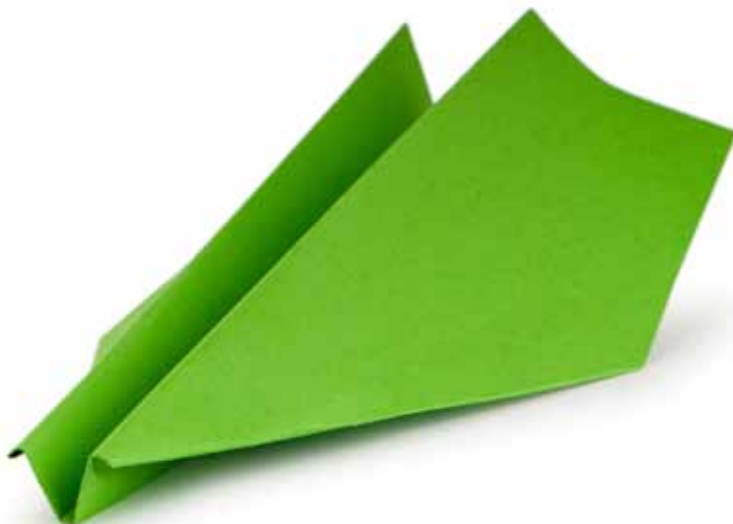
Transitions can occur on the family front as well as on the business front. As such, Next Gen development should also take into account business development priorities. This will then allow business families to involve the appropriate non-family management and/or advisors. In this regard, we surveyed the business families on their priorities for the medium term (3-5 years) and the long term (5-10 years).

The highest-rated priorities in the medium term (3-5 years), as shown in Figure 4.2.1 are:

- Expansion into new markets (80%);
- Grow new lines of business (70%);
- Research development and innovation (61%).

The highest-rated priorities in the long term (5-10 years), as shown in Figure 4.2.2 are:

- Mergers and acquisitions (51%);
- Divestments and consolidations (51%);
- Grow new lines of business (43%).



The responses over the medium to long term reflect the long term horizons of Family Businesses, i.e. that they believe in building their businesses for the long haul in order to benefit multiple generations. However, if there is potential for appropriate mergers and acquisitions in the long term, business families may also be open to these opportunities.

Figure 4.2.1
What are the priorities for your business for the medium term (3-5 years)?

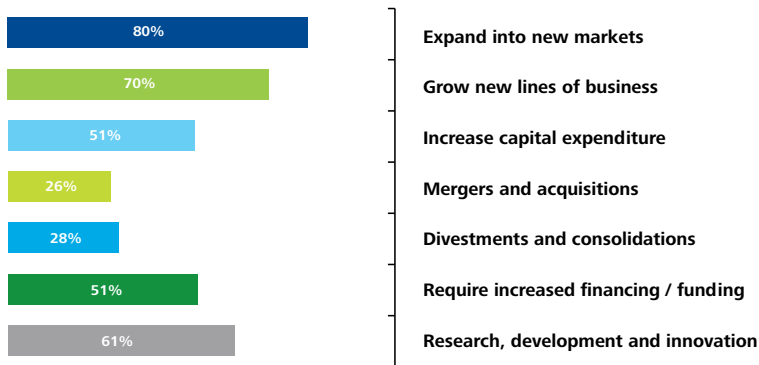
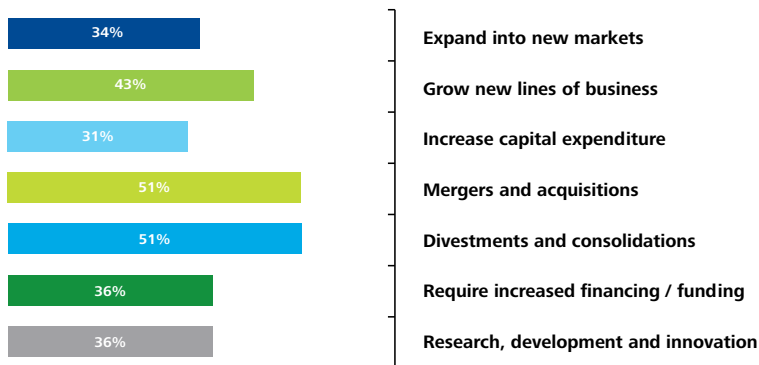


Figure 4.2.2
What are the priorities for your business for the long term (5-10 years)?



*Percentage figures may not add up to 100% as multiple options were allowed

Key Finding 4.3

Business development priorities differ from country to country and non-family management and/or advisors need to be sensitive to such variance.

Indonesia, Singapore, and Thailand exhibit similar trends when it comes to medium-term business development priorities. All of them are looking at expanding into new markets and growing new lines of their business. Indonesia is a key market to watch as we note that business families here have also identified increasing capital expenditure and the need for increased funding as concurrent medium term priorities (see Figure 4.3.1). This is to be expected given the country's strong 5-7% annual GDP growth (Source: IMF).

Long term priorities for these countries include, but are not limited to, mergers and acquisitions, as well as divestments and consolidations (see Figure 4.3.2). One explanation may be that some business families realize that their Next Gen may not be keen to succeed them in their original line of business. Therefore, mergers and acquisitions become necessary, in order for the Next Gen to grow new lines of businesses or to further improve their businesses. As such, the cycle of business development may be a dynamic and on-going process of reinvention and relevance, with each country having similar and yet distinct priorities for the medium to long term, depending on their country's and/or region's state of development (see Figure 4.3.2).

Figure 4.3.1
What are the priorities for your business for the medium term (3-5 years)?

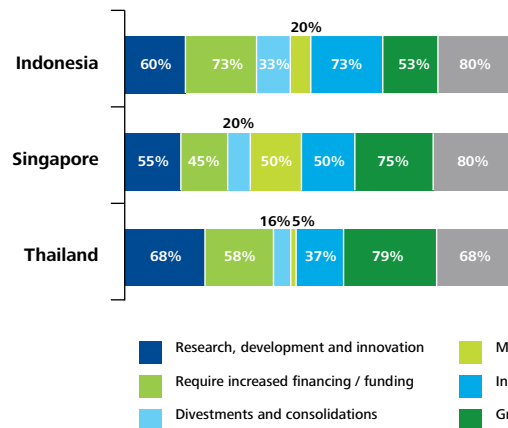
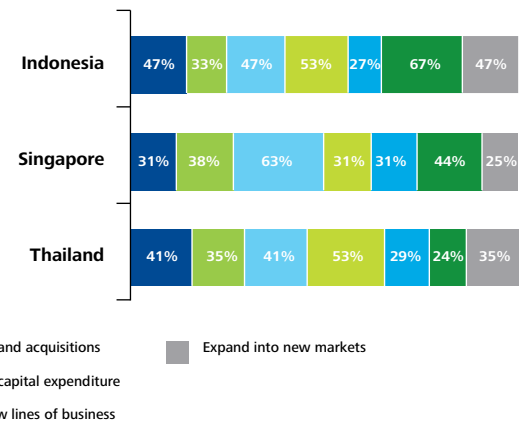


Figure 4.3.2
What are the priorities for your business for the long term (5-10 years)?



*Percentage figures may not add up to 100% as multiple options were allowed

“Business development priorities differ across country and company but are key to success. Business families have to adapt to their environment, step out of their comfort zone and work towards their vision to expand and grow the business.”

Claudia Lauw
Financial Advisory Partner
Deloitte Indonesia

Business Family Interview – Philippines

The Ayala Corporation was founded in 1834 as a family partnership with various business interests including a distillery, real estate development and banking in its early years. Since its establishment, successive family members have always aligned the growth and development of their family business to the national development of the Philippines. The family's significance to national growth coupled with each successive generation's commitment to constantly reinvent itself has led to the longevity of the family business. In 1968, the family partnership was corporatized as a public company. Ayala Corporation was listed in 1976 and it also has 5 listed subsidiaries on the Philippine Stock Exchange, with a wide range of diversified business interests that includes telecommunications and water distribution, as well as power and transport infrastructure.

The Ayala Corporation is currently led by its 7th generation of family members comprising two brothers, Jaime Augusto and Fernando Zobel de Ayala, who are Chairman and Vice-Chairman respectively. Mr. Jaime Augusto returned to the family business after earning his degree from Harvard University in the early 1980s. He was then responsible for the operations of the food and beverage business while Mr. Fernando was initiated into the real estate business. Interestingly, their father distanced himself from his sons' development in the family business. Instead, they reported directly to the relevant non-family executive management teams until they proved themselves to be competent and dedicated professionals in their own right who were able to add value to the family business in leadership positions.

Business Family Interview – Thailand

Founded in 1957 by Mr. Prachak Tangkaravakoon, TOA's business expanded in the mid-1960s when it began importing high quality paint from Japan. TOA subsequently established its own subsidiary, TOA Paint (Thailand), and the subsidiary grew to become and is still a market leader with the highest market share in the paint business in Thailand on the strength of its innovative research and product development. Since the mid 1990s, TOA Paint has been regionalizing its business and it currently has offices and operations in various countries in the region including Cambodia, China, India, Laos, Malaysia and Vietnam. The TOA Group's other business interests includes subsidiaries which are involved in chemicals, petrochemicals and automotive.

The founder has four children, three of whom are sons who are involved in the TOA Group. The founder's eldest son, Mr. Vonnarat Tangkaravakoon, joined TOA Paint in 1999 and was appointed as its President four years later. In his current role as the Chairman of the TOA Group, Mr. Vonnarat Tangkaravakoon is currently in charge of its overseas expansion. The founder's second son, Mr. Jatuphat Tangkaravakoon, is also involved in TOA Paint as its current Managing Director cum Deputy Chairman of the TOA Group. The founder's third son, Mr. Nattavuth Tangkaravakoon, is TOA Paint's Chief Manufacturing Officer. As such, all three 2nd Generation successors have distinct roles and responsibilities and have been able to work cohesively together.

Mr. Jatuphat Tangkaravakoon recalls his succession journey in the following terms....

“Since we were young, our father involved us in informal discussions in relation to the business thus igniting our interest in the TOA Group. Although he allowed us to pursue our interests including overseas experience and external exposure in other companies, in the end, we understood he would call us back to the TOA Group. When we started work at the TOA Group, we usually reported to our father’s long-serving employees to mentor us for about 4 to 6 years before we were able to take on leadership positions in the TOA Group. Currently, we who are in our 40s run the TOA Group on a day to day basis but we would consult our father who is now in his 70s on strategic matters. Overall, I would say that my father is very proud and pleased that he has three sons to take over the business.”

Conclusion

The development of the Next Generation of Asian business families are critical to their continued success and sustainability. This is especially so given the business families' preference for the next generation to be trained as management successors of their respective family businesses. However, there are challenges in terms of the development of committed, passionate, and competent Next Gen management successors. Such challenges may be overcome by further training and support as well as designing a meaningful developmental plan for their potential successors. Such a developmental plan could involve various aspects of family development, business development, investments, and succession. The openness of these business families to such training opportunities and enhanced developmental support is critical to the long-term viability of their succession plans.

Another essential element of business family management succession is the involvement of trusted non-family management and/or advisors whose input can have a profound and positive impact on any succession plan. Firstly, non-family advisors are usually able to provide an objective perspective which, in turn, enables them to evenly balance the needs of the business and the family. Their objectivity may also lead to unbiased input that could revive and bring fresh relevance to businesses. Most importantly, non-family management and/or advisors can play a critical role in facilitating consensus-driven transitions through their ability and aptitude to facilitate the development of the Next Gen through mentoring, and also to facilitate the incumbent generation to transition out of day-to-day management control.

In conclusion, as business families continue to evolve and execute their succession-related development plans, there is optimism that with the appropriate commitment and conscientiousness, business families will be able to pave the way for sustained and successful successions.

Research Methodology

In connection with the March 2013 launch of the Business Families Institute @ Singapore Management University, Deloitte Southeast Asia (“Deloitte”) provided BFI @ SMU with a research sponsorship in order for the latter to design, disseminate, and deliver the inaugural Asian Business Families Succession Research Survey Report 2013 (“Research Survey”).

Although the initial scope of the Research Survey was focused on six (6) Southeast Asian countries, namely Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, BFI @ SMU was also grateful to receive responses to its online survey from business families in other regions. These business families indicated that they originated from North and South Asia, the Middle East, Europe, Australia and the USA. This makes the parameters of the Research Survey truly global in its perspective.

The Research Survey is designed to be an interactive educational tool by highlighting key themes which are relevant to business families such as – succession objectives, planning for succession, successor selection process, successor criteria, succession-related challenges, strategies and training needs. The objective of the Research Survey is to examine, among other things, the succession-related sentiments of these Business Families in relation to the above-mentioned focus areas as well as the business families’ succession-related strategies and structures going forward.

A total of 83 Business Families participated in the confidential online Research Survey from August to Mid-October 2013. All Research Survey respondents were members of a business family which is defined as:

Definition of a Business Family

1. **Family** – By at least two (2) **Business Family Members** (defined below)

- (a) Immediate Family Member – (i) Husband and Wife, (ii) Parent and Child, and/or (iii) Siblings, and/or
- (b) Extended Family Member – (i) Uncles / Aunts and Nephews / Nieces, (ii) Cousins and/or (iii) In-Laws

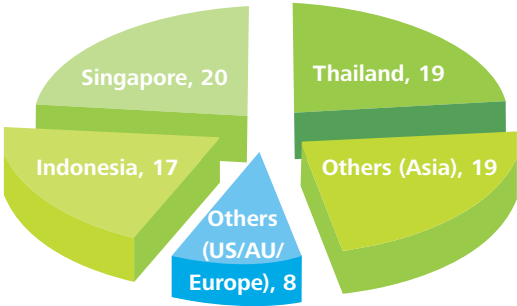
AND

2. **Business Involvement** – Through Ownership and/or Management

- (a) The Family Members collectively own more than 50% of the voting shares of the business, and/or
- (b) At least two Family Members manage the business as Executive Directors, CEOs, Senior Management etc

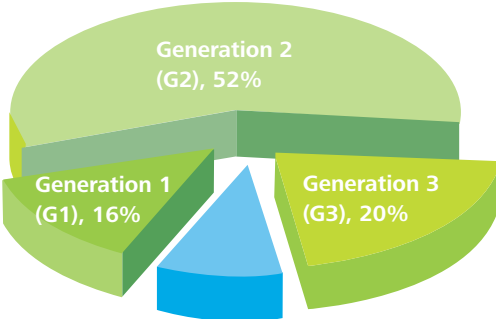
Profile of Respondents

Country



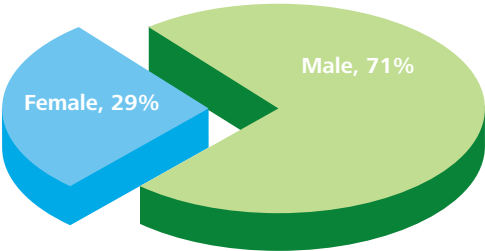
n=83
 Others (Asia) – Malaysia (5), Philippines (4), Vietnam (3), Myanmar (2), China, Japan, Taiwan, India, Pakistan.

Generation of Business

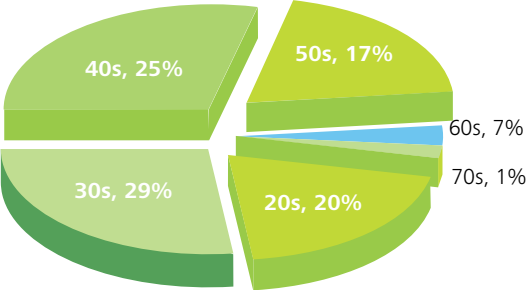


Generation 4 and above (G4+), 12%

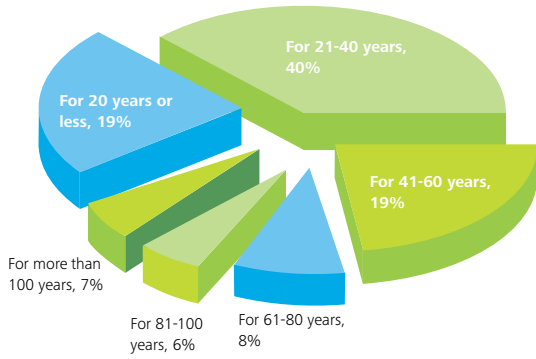
Gender



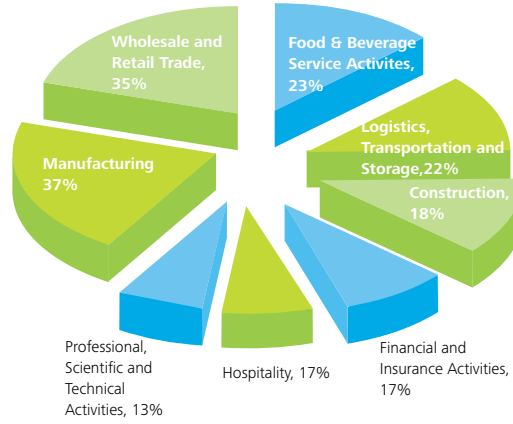
Age



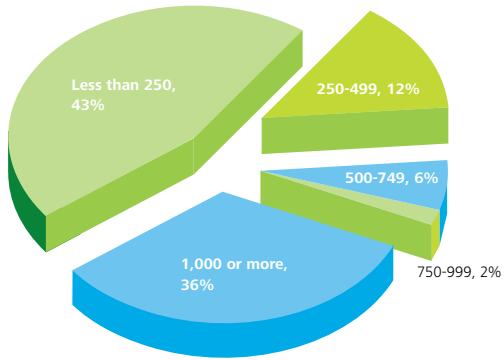
Years of Operation



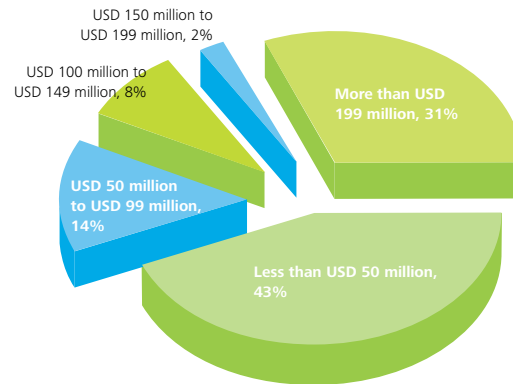
Business Industry



Number of Employees



Estimated revenues for FY 2012



*Percentage figures may not add up to 100% due to rounding

About the Authors and BFI @ SMU

About the Author

Annie Koh is the Vice President for Business Development and External Relations at the Singapore Management University (“SMU”). An Associate Professor of Finance, Annie also holds various positions including that of Academic Director of the Business Families Institute (“BFI @ SMU”). She received her PhD in International Finance from New York University (Stern School of Business) where she was a Fulbright scholar. Annie also received the prestigious National Day Award – Public Administration Medal (Bronze) – in 2010.

Annie is a frequently sought after conference speaker, panel moderator and expert commentator at various international conferences including the World Economic Forum where she was recently appointed to its Global Agenda Council on Southeast Asia. She also sits on several advisory boards, governing councils and steering committees at SMU as well as the financial services and government sectors. Currently, she is on the Advisory Boards of a number of family businesses and she was also recently appointed to the Board of Directors of k1 Ventures Limited, an investment holding company of the Keppel Group, which is listed on the Singapore Stock Exchange.

Annie’s research interests are in Family Office and Family Business Research, Investor Behaviour, Alternative Investments, and Enterprise Risk Management. Annie is also author of International Enterprise Singapore’s book on Financing Internationalisation – Growth Strategies for Successful Companies (2004) – which has been translated into Chinese.

About the Co-Author

Elaine Tan is a Director of BFI @ SMU. Elaine holds an LLB (Second Upper Class Honors) from the National University of Singapore. Elaine had spent more than 12 years both as a litigation lawyer in private practice and then as an in-house corporate and commercial lawyer with Singapore Airlines and then JPMorgan Chase Bank, N.A. In August 2011, she joined an international philanthropic advisory organisation, the Charities Aid Foundation (CAF), as its Chief Executive Officer for Southeast Asia (SEA) to ensure its compliance with local charitable laws as well as to share best international practices in order to facilitate Singapore’s growth as a wealth management and philanthropic hub. Elaine then joined SMU in August 2012 to spearhead the establishment of BFI @ SMU. Elaine is confident that her legal background will support the growing aspirations of business families in Asia that are keen to develop their business families through generational change with enhanced governance.

About the Co-Author

Jeandra Ejercito is a Research Manager of 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 programs for data entry, program data cleaning specifications syntax, data validation tools, data tabulation, data analysis and presentation. Jeandra joined BFI @ SMU in June 2013 to manage the integrity and accuracy of data analytics and 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 BFI @ SMU to be Southeast Asia's first regional business family centric institute focused on addressing the needs of business families in the region. BFI @ SMU intends to serve as an educational, engagement and research platform to bring together business families, drawing on the university's experience to offer insights on issues such as business succession and family ownership. Our values are centred on facilitating business families to think generations, think growth and think giving. Our vision is to be a knowledge leader in business family education, engagement and research in the areas of family, ownership, business and governance in order to equip our business families to develop, harness and leverage their family and financial capital across generations. Our mission is to engage and enable business family members to be active, committed and involved stewards, stakeholders and partners through learning and education.

More information may be found at our website – <http://bfi.smu.edu.sg/>

Acknowledgements

BFI @ SMU wishes to acknowledge the support rendered by the following academic affiliates who facilitated the dissemination of our inaugural Business Families Succession Research Survey.



Turning the inside out

Facing up to succession challenges

Business families in Southeast Asia don't just face the usual corporate challenges of profitability, competition and growth – they also face a unique challenge in ensuring a smooth succession to maintain the momentum of the business from generation to generation. How they prepare the successor and their company and handle the transition will be critical to the sustainability and longevity of their corporate lineage – and that's where Deloitte can help with our tailored advice and solutions.

Deloitte Southeast Asia is proud to be a knowledge partner to the SMU Business Families Institute as it conducts ground-breaking research that will help entrepreneurs plan for their futures with confidence. By working together, we are going the distance with the next generation.

For more information, visit www.deloitte.com

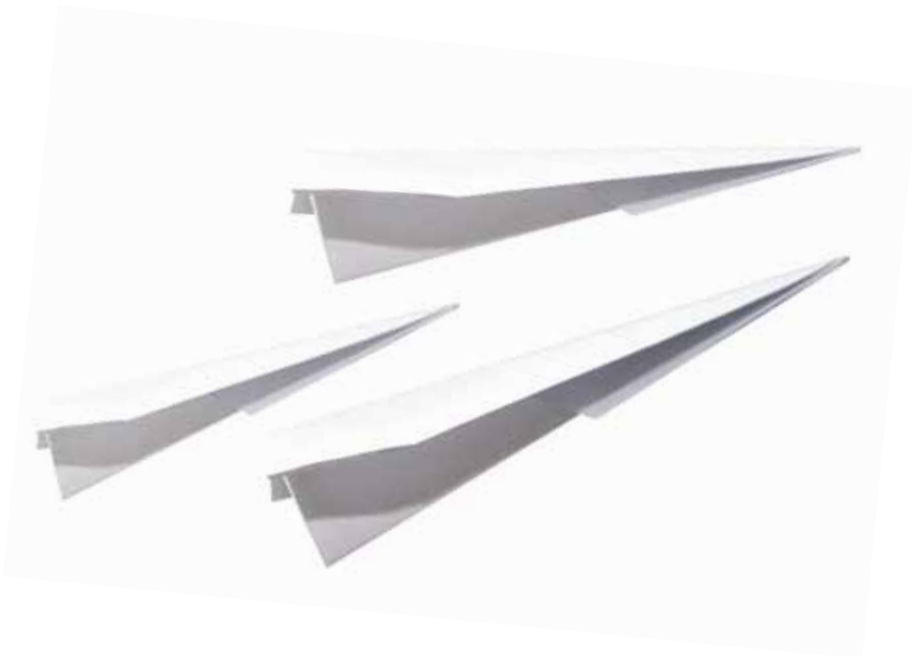


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