



Transitioning to the Next Generation: Leadership Succession at Family Businesses in Southeast Asia



Introduction

Family-owned firms are key contributors to the global economy. According to the Family Firm Institute, family companies represent two-thirds of all businesses around the world and generate 70% of annual global GDP. Families run 85% of the businesses in Asia; of the top 750 largest family businesses globally, 173 are based in Asia and generate a combined revenue of US\$1.99 trillion.¹

Most family-owned businesses in Southeast Asia were established in the 1950s and '60s, in the post-World War II era when economic industrialization gave rise to the modern business culture that we know today.² In present times, while founders often still oversee their companies, many of these family businesses are now led by the second generation and are preparing for the third generation's entry. There is a lot at stake within family enterprises during a generational transition, including: the viability of the business, the family' livelihood, the "iron rice bowl" of lifelong employees, and the estate and legacy that may be passed on to future generations. Family businesses transitions are far more complex than non-family company successions, as the controlling shareholders have personal relationships. Because of this, family members' roles might be not as clear as in other organizations, and when more generations get involved in the business, the likelihood of disagreements increases.

To understand the challenges and opportunities for family businesses during this inter-generational transition, RRA spoke with eight key family businesses in Southeast Asia who have completed or are going through a leadership transition. As evidenced by the stories and successes of other multi-generation family businesses, success and longevity do not happen by chance.

The challenges



During our conversations, the following challenges came to light when discussing leadership transitions:

Availability and willingness of next generation to take over the family business

While many family business leaders hope their families continue running the business, not all are able to find the right successor, or even envision future generations being actively involved. As a family business becomes more complex, there are fewer viable in-family business candidates to take on senior leadership positions. As such, there will likely be a shift from a “family-first” business mindset to a “business-first” family business. Quite unlike the first and second generation of family leaders, future leaders of family business are more likely measured against external professional managers. They will be paid for the job they do, rather than who they are, should they join the family business. Often, these family members choose to launch other entrepreneurial ventures under the family name, thereby carrying the brand and legacy across generations, vs the actual business itself.

“We don’t see it as a legacy business and want to take it to IPO. My children are very interested in owning and running the business but as they have graduated, they understand the reasons why they should not, so they are building their own businesses. They are very industrious and are better off doing their own things.”

2nd generation son in a family-owned business in Southeast Asia

Developing a timely and robust succession plan and pipeline

Succession within a firm is always a contentious issue, particularly for a family enterprise. Our conversations revealed that many successions occurred by chance, oftentimes due to the patriarch/matriarch being unable to discharge his/her duties in the company’s best interest. Next generation family members found themselves being thrust into the business rather abruptly, after spending some time in the corporate world. Others started their own entrepreneurial ventures before being “recalled” for “family service.” Very few had a deliberated and documented succession plan; at most, there were cursory discussions around taking over “when the time comes,” neglecting to establish a formal structure for the heir or developing the next generation of leaders, internally or externally.

“When my father had to leave the business suddenly, my siblings and I were completely thrust into it and had to figure things out overnight. Luckily, my grandfather was around, and we could take guidance from him and my father in the initial days, but we did not have the luxury of time to gently fit in.”

3rd generation family member of a large Southeast Asian conglomerate



Gaining clarity around the vision for both business and family

A successful family business requires an effective system that transcends traditional corporate governance; one that can address complex family relationships, as well as family interactions with business and other non-family shareholders. This system of family governance seeks to prioritize stability and harmony within the family construct before pursuing business growth, as opposed to the growth-first paradigm of most listed companies. Preserving core values across generations also plays an integral part in ensuring the family business' legacy and its role in society. In successful family businesses, these values are documented in a family charter. Failing to establish a strong family charter could lead to disputes and erosion of the purpose, vision, and values of the business.

Professionalizing the business beyond the family

Both second and third generation leaders, as well as recently-joined next generation executives agree that the mid to long-term success depends on the family business' ability to pivot to new business models and opportunities, adopt best-in-class leadership practices, and upgrade business processes via technology and digital innovations. They articulated a need for openness to outsiders as well as a willingness to change and grow, noting that merely maintaining the status quo and not driving transformation would not safeguard the business' future. However, especially among earlier generations, there is a certain degree of skepticism surrounding external consultants. While some acknowledged there may be value in having an independent view, they are unconvinced that it is worthwhile to invest in additional perspectives unless the individuals possess an in-depth understanding of specific family dynamics and nuances.

“We need a family coach. My father is a classic relationship-oriented salesperson. My vision is to make sure HR and digital are more world class and balanced.”

Multi generation family member from a Southeast Asian family-owned business

Best practices



Family businesses in Southeast Asia benefit from lessons learned by large family businesses that have gone through multiple generational changes, navigating challenges around their own family succession. In addition, family business can model their succession planning after the systematic processes of large corporates, which are specifically tailored to accommodate where the business and leadership are today, where they want to be tomorrow, and to identify the specific strengths and gaps that they will leverage and address. This will allow current leaders to embed the family's values into the business culture and wider community.

Ensure a strong family charter is in place

Successful family businesses are connected through a legacy of shared values and a long-term commitment to becoming stewards for future generations. To many, values are synonymous with the culture and ideology of the enterprise. Besides a strong sense of identity, a deeply held core ideology gives the enterprise continuity that holds the organization together amidst change. In the context of the family enterprise, values help guide both the family and the organization as it conducts business.

“For the last two years, we have worked on putting a family agreement in place—joint ownership among all siblings. In 2019, we got the family agreement together and in 2020 we also got shareholder agreement in place for two entities; one my brother runs and one I run. Hopefully this will help keep the relationships intact. Now, we are focusing on growth of the business, but we may need to work towards amending this to a sustainable model for the future.”

Second generation son of a family business in logistics and infrastructure

Have a succession plan in place early

Often, large successful global family enterprises invest in implementing the right organizational structure through the family charter. By incorporating structure into how the family enterprise operates, owners are helping future generations better anticipate and react to the inevitable conflicts that will arise as both family and business transition and grow.

“Create board-controlled companies vs. family controlled, although the family may have some board representation. We want to protect the brand and the family name, which consists of our father's / grandfather's names. We want to create a partnership model.”

Second generation son of a family business in logistics and infrastructure

Develop the successor(s)

Successful family businesses share a strong focus on professionalism, transparency, and collaboration. Potential successors benefit from being aligned with external professionals, coaching throughout their journey within the company, and connection with a broader network of family and corporate leaders, with whom they can exchange ideas.

“Stewardship: we want a way to continue the legacy of the business. My brother has no children yet, so we need to create an organization structure that helps bring the kids onboard. Until then, we must utilize leadership that is not family. We are more conscious of grooming early. Bringing family members in too late and expecting them to do things “family style” can make it tough for them to adapt. It is unproductive.”

Multi generation family member from a Southeast Asian family-owned business

Manage the transition

Once a new leader steps in, the previous generation typically remains involved. There is often a high level of deference to them, especially when making critical decisions, and they are used as sounding boards on strategic, financial, and people related matters. Understandably, these actions often lead to confusion and frustration, unintentionally undermining the authority of the new leader. Thus, it is imperative to clearly identify and articulate the accountability and responsibility of the incoming leaders. The previous generation needs to relinquish control and step back into an advisory role. Until this occurs, the boundaries between generations will remain undefined and lead to frustration, especially without an outlet for these emotions.

“As a family, they always face the rest of the world together. The younger generation is expected to listen and learn. The Chairperson’s daughter is in the board room and will get involved with decision making. They may argue at family council level, but face everyone together as one unit.”

HR Leader of a prominent Southeast Asian Family business.

Develop an openness to outsiders

Successful family businesses beyond third generation leadership reach a point when the family must stop functioning as though the business is there to serve them, and instead allow the business to attract non-family talent and develop products and services that can compete in an increasingly global marketplace. For this to happen, families need to become comfortable with the notion that executive leadership need not come from their own ranks. The family must ensure accountability from family leaders and non-family executives.

“Going forward, I feel like the leadership and family incentives need to be aligned especially over the next 20 to 30 years. We need to separate ownership and leadership, as we don’t envision the future generations in the business but prefer a professional team.”

Second generation son of a family business in logistics and infrastructure

“In the case of allegiance to business vs. family, loyalty to the family is very critical. Younger generations are also working to shape a better outcome for their communities.”

HR Leader of a prominent Southeast Asian Family business



Conclusion

For any business, there are huge risks attached to leadership succession and the costs of getting it wrong are high. This is even more nuanced when it comes to a family-owned businesses, as additional emotions are at play. Without a good plan and a clear goal to guide the family's involvement and participation, further success may be impossible. It is up to the next generation to ensure that a viable set of operating rules and procedures for both the company and family members is confirmed. Ensuring a strong family charter is in place, starting succession planning and development early, and staying open to business options outside of the family circle remain the critical first steps for a successful transition to the next generation.



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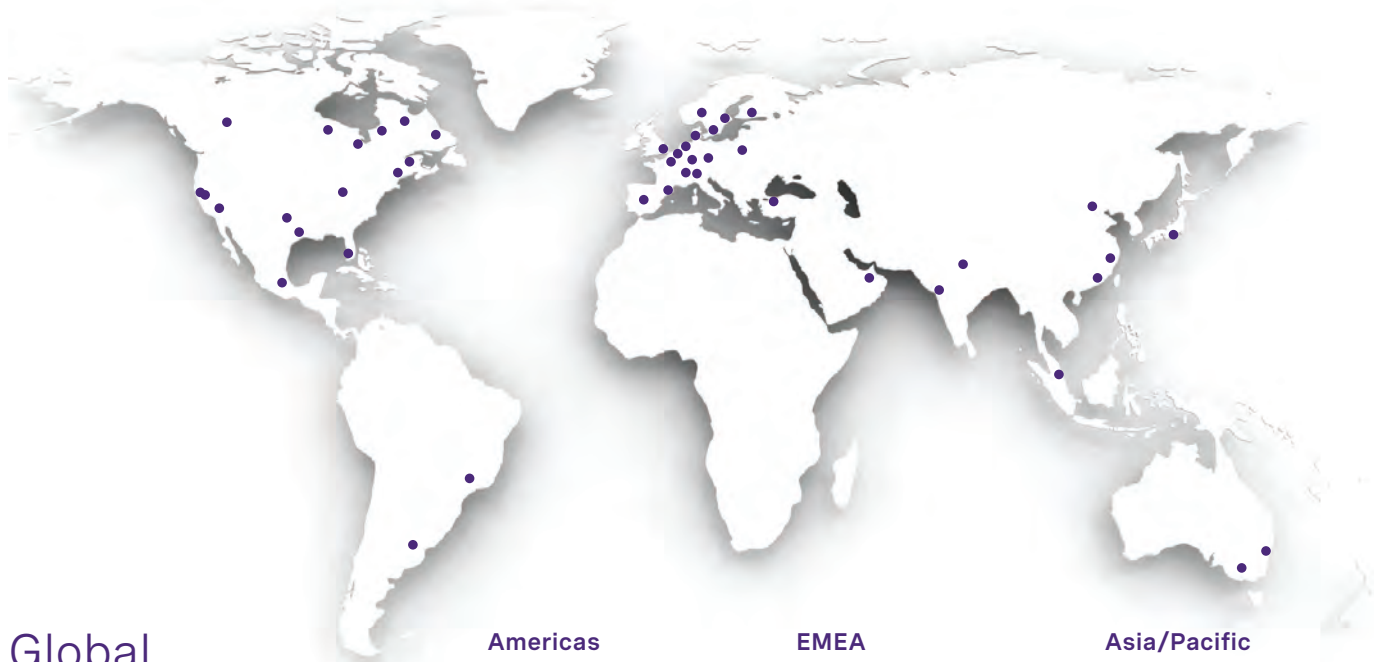
References

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