

FAMILY BUSINESS

THE MAN WHO MAKES
PATEK PHILIPPE TICK PAGE 04

_ **PLUS WHY FAMILIES ARE DRIVING
DEVELOPING ECONOMIES, PAGE 10**

_ **AND MAXIMILIAN RIEDEL ON HIS
GLASS-MAKING DYNASTY PAGE 14**



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FAMILY BUSINESS MAKES THE WORLD GO ROUND

GLOBALISATION From Thailand to Brazil, economic and cultural reasons mean that families are driving development. But as they get bigger, they must bring in outside expertise in order to survive, writes Fergal Byrne

Family business is the natural unit of economic enterprise in emerging markets. They make up some 70 percent of businesses within the emerging markets. Family-owned companies make up something like 95 percent of Indian businesses, for example, 90 percent of Chinese businesses, and 80 percent of Brazilian businesses.

"Family businesses account for the bulk of economic activity in the emerging markets and are responsible for creating the lion's share of employment and economic growth," says Andrew Keyt, executive director of the Family Business Center of Loyola University Chicago. As economic growth in the emerging markets has exploded, eclipsing growth in Europe and the US, an array of large family businesses has emerged: Mittal, Tata, Sabanci, Godrej, Votorantim, Reliance Group. Many of these companies have a strong or growing presence on the world stage.

Family businesses in these markets have had the resources to capitalise on opportunities that come with rapid economic growth. "In India, family businesses have the wealth, the networks, and the social and cultural awareness to take advantage of the myriad economic opportunities that are available," says Kannan Ramachandran, Thomas Schmidheiny Chair professor of family business and wealth management at the Indian School of Business. Speed is

another key advantage. "The family's ability to move quickly in a very dynamic and, fast-moving business environment is a real asset for family businesses in emerging markets," says Andrew Keyt. "They can move more quickly and they can make decisions that seem antithetical to global multinationals that are not family owned." Flexibility allows them to take advantage of opportunities that large global businesses can't.

GREAT CONTRIBUTION

Families make a greater contribution to the success of businesses in these markets, according to Christian Stewart, founder of Family Legacy Asia, an advisory company to families. "In general, family businesses in Asia tend to underinvest in marketing and R&D and have weaker, less recognised brands than family businesses in developed markets, so you find that a lot of the strengths of these businesses come from their family: it's know-how, expertise and connections that account for their success."

At the same time families must deal with the same issues as those in developed markets, Keyt says. "All families need to deal with questions of communications between family members, decision-making about responsibilities, succession, and leadership development. Although the questions families face may be the same, they tend to be dealt with

differently," he says. These issues can be made more difficult by specific cultural aspects – see box.

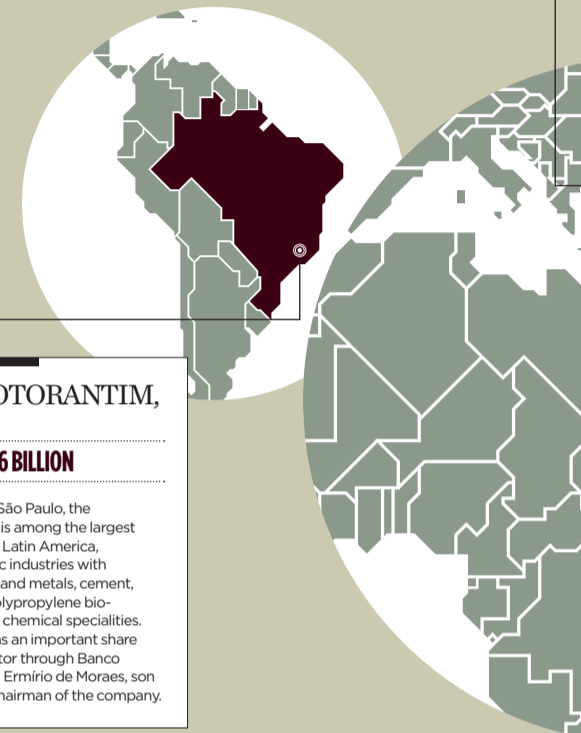
While culture is one factor affecting developing market family businesses, pragmatism is another. "In the more remote parts of many Asian markets – Thailand, Philippines Indonesia – it is harder to find the professional talent," says Stewart. "Quite simply, family members are often smarter, more willing to do the hard work, more committed to sustaining a family legacy. The mindset of many is that the only viable succession option is someone within the family. Only family members will do what is necessary to get it done."

TRANSPARENCY DRIVE

Governance is an area where family businesses are improving. The reality that many emerging market family businesses have stock market listings has been an impetus for some to develop more transparency and financial discipline, and to improve their corporate governance. But more professionalism is needed, according to Mr Stewart. "You rarely see professional directors on family business boards in Asia, except listed companies," he says.

"But even there, you get the sense that they are there to look after the interests of minority shareholders; they are not involved in strategy and oversight. Professionalising the board – or having an advisory board

ONES TO WATCH: SUCCESSFUL FAMILY BUSINESSES IN EMERGING MARKETS



Carlos Ermirio de Moraes

GRUPO VOTORANTIM, BRAZIL

REVENUES: \$17.6 BILLION

Headquartered in São Paulo, the Votorantim Group is among the largest business groups in Latin America, specialising in basic industries with interests in mining and metals, cement, paper and pulp, polypropylene bio-oriented films, and chemical specialities. Votorantim also has an important share in the financial sector through Banco Votorantim. Carlos Ermirio de Moraes, son of the founder, is chairman of the company.

Going public has been an impetus for many family businesses to become more professional and improve corporate governance

– is a good first step and would even help take the pressure off the succession issue."

Caroline Seow, executive director of Family Business Network Asia believes things are gradually improving in Pacific Asia. "We're noticing the openness of patriarchs and founders to consider top-notch non-family CEOs. Here at FBN we're also passionate about responsible stewardship as businesses grow across generations." Professor Ramachandran believes

COMMERCIAL FEATURE

TrustedFamily: a secure intranet for your family!

- Does your family include more than 10 family members over 18 years old?
- Do you have family members spread out over different cities or countries?
- Are most of the family members not working in the family business or office?
- Is the next generation starting to ask questions about the family business and its history?
- Do you struggle to bring everyone together and keep everyone informed?

If your answer to these questions is "yes", you are probably a member of a third generation or more family business. Congratulations, because that means you are in the 13 per cent of family companies that make it to the third genera-

tion. But it also means that family communication and cohesion will become more and more important for you.

While there are no scientifically proven reasons why certain family enterprises outlast others, there are many common values believed to be driving that success. These include family unity and cohesion, communication, trust, entrepreneurship and engagement of family members, just to mention a few.

About three years ago I went to my first family business conference and there I realised that my family was in exactly the same situation as other third generation plus family businesses when it came to communications challenges. I myself am a next generation member of a Belgian family business which

is active in plastics. During the conference, I met with Edouard Janssen, a next generation family member of the Solvay Group, who was in a similar situation. We exchanged business cards and decided to do something about it.

At the time, Facebook, YouTube and Wikipedia were emerging. I had a technology background, so we tried to find out if we could use the internet to connect better with our family and our business.

After looking for a solution, we realized there was nothing out there that could solve our specific needs. We wanted to find a platform that was secure, easy-to-use and that would combine all the necessary tools in one place.

We also found out that 70 per cent of companies worldwide are family



businesses, so we assumed others out there would have similar needs.

We ended up creating a company, called TrustedFamily, with a simple idea: to build a secure communication and collaboration platform for business families.

Today, TrustedFamily has more than 40 customers in 13 countries that control businesses with combined sales over 300 Billion USD.

We make it easy to post minutes of meetings, organize events, share news, reports and information, build a family archive, share photos or videos, and much more.

If you want to preserve your family past and build your family future in an interactive way, feel free to get in touch.



For more information, visit www.trustedfamily.net contact@trustedfamily.net

Güler Sabancı

SABANCI HOLDING, TURKEY

REVENUES: \$13 BILLION

Sabancı Holding is one of Turkey's largest industrial and financial conglomerates, controlling some 70 companies with operations in a wide array of areas ranging from telecom and retail to cement, tyre-making, hotels, and power generation. Sabancı and its subsidiaries also own more than 40 per cent of Akbank, Turkey's largest bank. Güler Sabancı, a third-generation family member, is chairwoman.

Li Ka-shing

HUTCHISON WHAMPOA LIMITED, HONG KONG

REVENUES: \$42 BILLION

Hutchison Whampoa Limited is an international conglomerate with a diverse array of holdings including port operators, retailer, property development and infrastructure, and telecommunications operators. It is a Fortune 500 company and one of the largest companies on the Hong Kong stock exchange. The company is controlled by Li Ka-shing, the company's chairman.

Naguib Onsi Sawiris

ORASCOM TELECOM HOLDING, EGYPT

REVENUES: \$3.85 BILLION

Orascom Telecom is a large and diversified telecom operator running GSM networks in 11 emerging markets in the Middle East, Africa and Asia. It launched the first mobile operator in Egypt, Mobinil. Naguib Onsi Sawiris is the company founder and executive chairman and with his family of company owns a controlling stake.

Ratan Tata

TATA GROUP, INDIA

REVENUES: \$76.4 BILLION

Tata Group is the largest private corporate group in India with interests in an array of areas ranging from communications and engineering, to energy, consumer products and chemicals. It has operations in more than 80 countries; leading companies within the group include Tata Steel, Tata Motors (including Jaguar and Land Rover), and Tata Consultancy Services. Ratan Tata is chairman.

there has been a major drive toward professionalism recently. "Family size is shrinking so family members realise the need to work with outside talent. This is particularly true of the younger generation, which has... studied and worked abroad."

Adapting to global business culture is another big challenge. Education abroad and internships can help. According to Henry Wai-chung Yeung, an academic from the National University of Singapore, family business heirs educated in

top business schools abroad who eventually take over the business are more likely to use professionals in management roles. These managers play an increasingly vital role in key positions and are more likely to be independent-minded and less easily controlled than in the more traditional Asian management style.

But there are dangers, says Mr M V Subbiah, former chairman of Murugappa Group, now a fourth-generation Indian family business. "In India, you now have a situation

where everyone goes to the US to get their MBA," he says. They think they should become the successor. But the business schools don't teach holistic leadership or the ability to make quick decisions the way grandfather or father took decisions.

"And often, when the younger generation comes back, they question or dismiss their family's values and culture, which can be fatal for the business. In my experience, clear and aligned values are the bedrock of a sustainable family business." ●



Chinese entrepreneurs are reluctant to hand on control to the next generation

THE CULTURAL ANGLE

In some developing countries culture can impact on how a business is run. Things are done differently in London and Saigon. Take succession, for example. Indian cultural dimensions can make succession in India a challenge. Prof Ramachandran of the IBS says that this can be made tricky by the active involvement of all male members in the business, which provides specific leadership, identity and status; and then there is the inherent assumption that the eldest is the brightest, smartest and best to lead able the business. Only 25 per cent of Indian business boards discuss succession planning, according to the Bain Corporate Governance in India Survey in 2009. Several of India's largest family businesses are currently grappling with this question, including Tata, the first major Indian family business to look outside the family for leadership.

Succession is a big issue for Chinese family businesses, too, as first generation Chinese entrepreneurs near retirement age. According to research by Zhejiang Chamber of Commerce, about 80 percent of private

enterprises face succession problems. Liu Shengjun, deputy director of the Case Center at China Europe International Business School, writing recently on the Harvard Business Review Blog, identifies the impact of Chinese culture on succession: sons are expected to take over running family businesses because there is usually low trust outside of family members; and, many larger-than-life CEOs expect to continue to influence their companies when they are no longer CEOs.

Chinese cultural influences extend throughout Pacific Asia, where ethnic Chinese families have a strong presence, according to Christian Stewart of Family Legacy Asia. "Ethnic Chinese families tend to be inward-looking and find it hard to establish trust outside the family; as a result, they tend to have more difficulty professionalising than western family businesses. Most still rely on family at the highest levels. The top jobs are not going to professional managers but to family members who are being groomed for success."

COMMERCIAL FEATURE



The Family Business Consulting Group, Inc.®

FBCG advises more business-owning families than any other firm in the world

Beyond Best Practice

We can be in no doubt that the principles of stewardship are universally recognised by successful family firms. But these principles are interpreted differently by every family and every culture. Let us not create a buzzword. Let us instead understand what every family needs and wants in expressing their duty of care. The most successful family firms believe that they exist to serve others and are true servant lead-

ers. They do their best to nurture the potential of all stakeholders and remain committed to ensuring that "wealth" is expressed in its widest form and shared among many. They create meaning in their activities, which allows them to transcend generations.

Most importantly, they allow each generation of owners to define their own leadership style and values. What made previous generations successful



may no longer be relevant to current and future generations. In some cases, the application of what worked in the past may very well do damage to future generations. Good stewards of family businesses allow for change and in so doing protect their legacies.

Good stewards also provide freedom. Freedom to leave the family business, freedom to grow independently and freedom to give back in their own way. As economic and social conditions change over generations, so should the ability of family owners be allowed to change in accordance. If we think about it, freedom is what underpins entrepreneurialism - the very thing that began the family firm in the first place.

Given this freedom, how can we learn from each other? I recently heard a family business owner in the Middle East say, "I only exist to provide for my children and to care for my parents." A family owner in Asia told me, "I want to ensure that my children integrate with the rest of the world, given the globalisation of

my business". A highly successful European entrepreneur who endured the Second World War said, "I don't care what my children do with their money as long as they leave the world a better place than I found it".

Instead of looking for recipes and things we can copy, let us look at the uniqueness of each family firm, its culture and its environment. Let us move beyond best practice and focus on what is fit for purpose. We are all unique and must be treated as such. There is no one size that fits all.

Penny Webb

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