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FAMILY BUSINESS

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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 per cent of Indian businesses, for example, 90 per cent of Chinese businesses, and 80 per cent 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

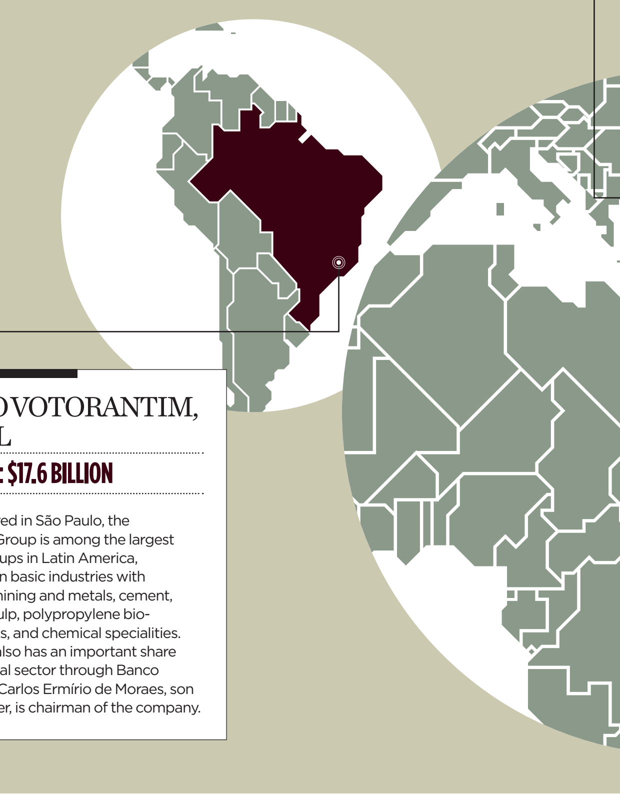
Governance is an area where family businesses are improving. The reality that many emerging market family businesses have stock market listings has been an impetus for some to develop more transparency and financial discipline, and to improve their corporate governance. But more professionalism is needed, 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 – 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

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

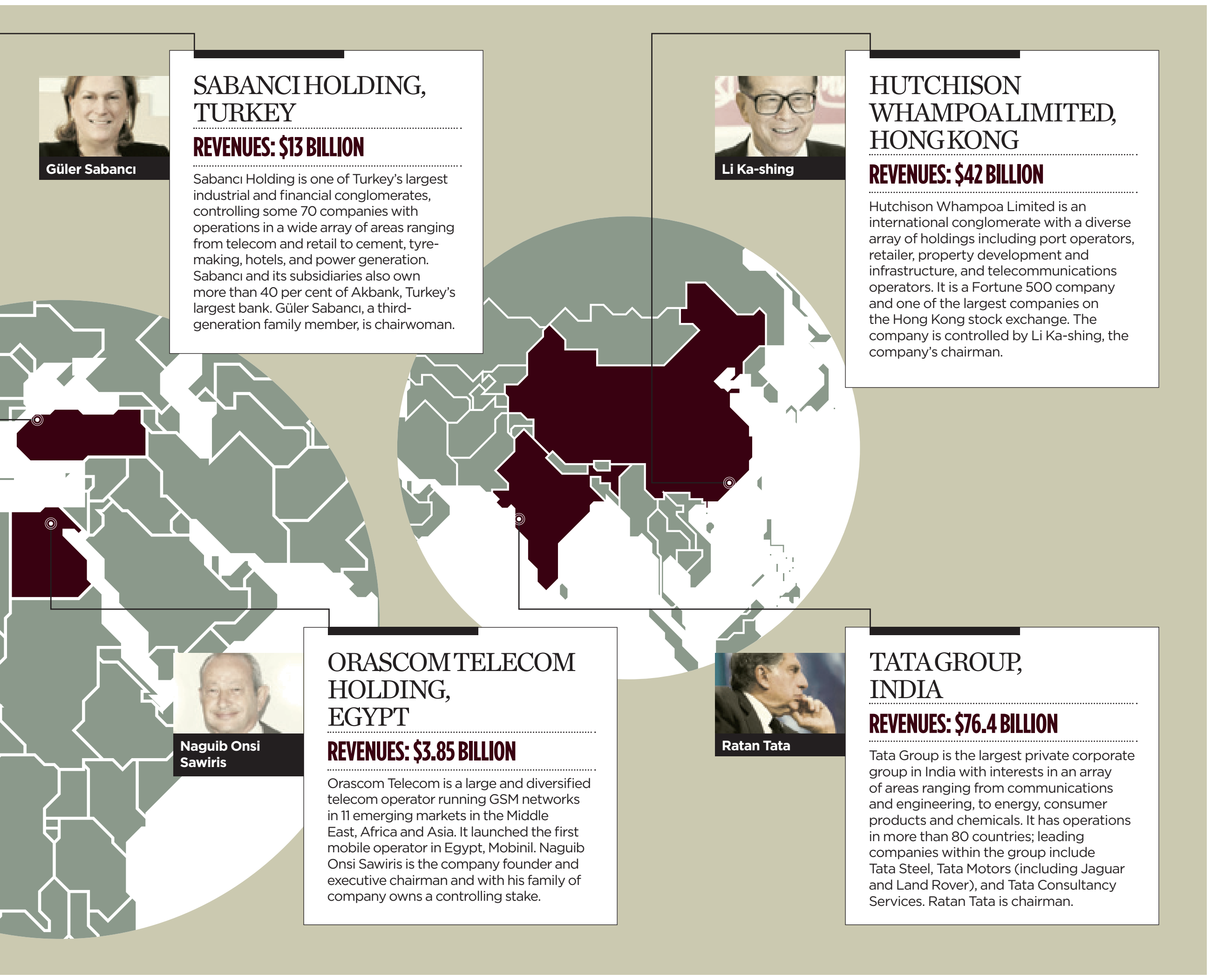
ONES TO WATCH: SUCCESSFUL FAMILY BUSINESSES IN EMERGING MARKETS



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 Ermírio de Moraes, son of the founder, is chairman of the company.



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."

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