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# A family council for a confucian family

*"The palest ink is better than the best memory."*  
Chinese Proverb

## Can A Confucian Family Learn to Make Joint Decisions Together?

Thinking about setting up a family council and creating your own family constitution? If so, two essential books that you have to get your hands on are *Family Wealth*; Keeping it in the Family by James E. Hughes Jr. (Bloomberg Press) and *International Family Governance* by Barbara R Hauser (Mesatop Press). Barbara Hauser's book intentionally sets out to be one for the international family and she offers a very interesting comparative look at the country governance systems, the family culture, and succession laws in 6 different countries, including India and Japan.

James Hughes Jr. starts *Family Wealth* by referring to the universal proverb "from shirt sleeves to shirt sleeves in three generations" or as they say in Chinese "Wealth does not survive three generations". Interestingly Hughes explains that he was first started on the journey to finding the solution to this proverb by a wealthy Chinese family in Singapore in 1974.

## What is a family council and a family constitution and what is "family governance"?

Hauser explains this in simple terms. Family Governance she says is an agreement on how the family will make decisions together. The family council can represent the family. The family constitution can be the rules about how the decisions will be made. The number one reason why family wealth fails to last, Hauser summarizes, is family conflict, so by having an organized process for the family to make joint decisions together, they stand the best chance of avoiding conflicts and creating a strong family. Hughes also says that while the term "governance" might sound complicated it is simply about having a good process for the family to make joint decisions together. Hughes says that to defeat the proverb, a family must have an organized process for making slightly more good decisions together over the long run, than bad.

There are a growing number of business owning and wealthy financial families all across Asia that have formed a family council and "crafted" their own family constitution. However the question is often asked, is all of this "too American for families in Asian?" Does a family council and family constitution somehow go against the Confucian culture that is prevalent in many parts of Asia? Another way of putting the same question is: "Is joint decision making important for wealthy Asian families?"

Let's tackle the later question first. As it turns out, when you look at some key research on continuity of Asian family firms, it shows us that family decision making is actually a central issue. Research by Wong Siu Lun from the University of Hong Kong on the life cycle of Chinese family firms show that first generation family firms typically have what Wong calls "Centralized" control where they are under the leadership and control of the founder. In the second generation, ownership control becomes "segmented" as it is divided among the sibling shareholders. In many cases at this next stage "younger siblings" start to rebel and the eldest sibling finds he does not enjoy the same authority and flexibility that his father possessed. Siblings also start to argue when they form their own family and have the pressures of integrating their own spouses and children into the family and business system. When shares start to pass to cousins, Wong calls this the "disintegrative stage" - because the family business usually disintegrates at this point. The key reason according to Wong is that the ownership of the business becomes too fragmented with the result that the family have difficulty making decisions together concerning the business. Wong also points out that the fragmentation of the share ownership results in shareholders who lack emotional attachment to the business. Asian family businesses are often more reliant on having family talent that can take on key management roles than is the case with Western firms. Hence having family member shareholders who are interested in a management role in the firm can be important for continuity.

From this model of the Chinese family business it can be seen that the ability of siblings and then cousins to make joint decisions together about the ownership of the family firm is very important. Second, having emotionally committed outside shareholders is critical. I would add to



this that having an agreed mechanism for being able to sell your shares, on terms that are fair for the seller and fair for the buyer and for the company (an "Exit Plan"), without getting into a fight over valuation and without placing an extreme financial burden on the company, is a third important piece of the puzzle.

From this we can conclude that a family council and family constitution are exactly the tools that Asian families need if continued family ownership is the goal. The whole purpose of a family council is to provide a platform to help the family make joint decisions together. Creating a properly run family council should also instantly increase the level of family emotional commitment to the business. And the family council can both establish the terms of the Exit Plan and then oversee its administration.

So there is a need and the family council is the right tool, but what about the Culture question? Traditional Confucian families are hierarchical and require a strong respect for elders, family values and tradition. The patriarch in a Confucian family is the sole decision maker and has a tendency to keep his cards very close to his chest. There is also often a very large communication gap between the generations. In contrast to this, a family council and family constitution can be said to stand for a collaborative, participative approach to decision making. You tend to think of a family council as being a flat structure; not a hierarchical structure.

In addressing the Culture question, the first point to note is that in any culture, family governance is not for every family. There are some families who simply do not want to work together. There are some families that simply don't have the basic ability to work together. As such we have to focus our enquiry on families where there is a goal of wanting to continue the family business (or jointly owned wealth).

The second point is that every country across Asia has its own unique culture and in fact, as Hauser notes, every family has its own unique culture. Not every Asian family is Confucian in culture (though you do not have to be a Chinese family to be a Confucian family). Some Asian families are naturally democratic and are flexible and can adapt to change. Interestingly a study of Philippine family businesses carried out by Ateneo University in Manila concluded that a democratic family culture correlates with a healthy family business.

#### **Here are five reasons why a Confucian family can form their own family council.**

- First, according to Barbara Hauser family governance is about the family members consciously deciding how they will govern themselves. Family governance is about a family designing its own rules and procedures for making decisions, based on its own goals and values and family culture. The kind of governance arrangements that a family make will also depend on the size and composition of the family and the generational stage of the family. According to Hauser, the key to family governance is not the substance of the decision making process the family decides on – it is the fact that they have expressly agreed on the process. As such, an Asian family can create a family council and craft a family constitution that reflects its own unique culture, including making sure there is a special role and due respect for family elders.
- Second, there are different kinds of family councils; there is no one right model to follow. A family council could be established which has a primary purpose of education and information sharing. A family council could be established which serves as a platform for sharing and discussing family views, but without having the power to impact on formal management or ownership decision making. This kind of family council could still have value and a helpful role to play, while leaving formal decision making in the hands of the family seniors. Even in the US, the family council does not make decisions on behalf of the Board and it might not replace the formal shareholders meeting.
- Third, an important component of family governance work is the clarification of roles and responsibilities. Research carried out by Tong Chee Kiong from the National University of Singapore into the failure of Chinese family firms in SE Asia concluded that most such firms fail due to internal factors including succession disputes and other family conflicts and that a key source of such conflicts is the overlap between family and business and between ownership and management. It follows that a family council and family constitution that helped to create appropriate boundaries and clarified roles and responsibilities would be of help and make a contribution to better governance without necessarily having to upset the family hierarchy.
- Fourth, every family, Asian or Western, will have its own natural decision making process. Every family business already has its own "unwritten family constitution". The rules are not written down but you sure know when you break one of them. Unfortunately, these unwritten family rules are usually unconscious or automatic to the family members and as such go unexamined. The question according to Hauser is whether the "unwritten family constitution" is going to be sufficient to allow the family to survive the shirt sleeves to shirt sleeves proverb.
- For any family, Asian or Western, to create a family council and craft its own family constitution, this is likely to involve a change from its natural or unwritten way of making decisions together as a family. Expect that it will take time for a family council to form and learn

to work together. Expect that it will meet with roadblocks and "restraining forces". To successfully make that change, you need the family to put in some effort of its own and the family need their own leader to lead that change process. If the family is a hierarchical family to start with, it can create a family council but that leadership probably has to come from the family seniors, for example the patriarch or matriarch, or the eldest sibling.

In addition to the right family leadership, Barbara Hauser points out that for a family to form its own family council and family constitution, it needs to be able to suspend its own natural decision making process. She also points out that the majority of families (and she is writing from a global perspective) need an independent advisor to start them on this process, and to keep them going for long enough until they get the hang of it themselves. In general it seems to be the case that an Asian family is likely to make little progress on their own, especially if the family elder is dictating the terms of the family constitution. An experienced outside advisor can help the family members suspend their natural hierarchy and give them an experience of working together as a collaborative participative team. An outsider can ask a family to do things that no family member can easily get away with! Part of that advisors' role is to give the family members the optimism and encouragement they need to get them through that change process.

There is a final set of reason why the family council will take off and flourish in Asia. This is because here, family is important; the family is the basic unit, not the individual; and continuing the business is very often the major goal. In the Asian culture, families are deeply concerned about preserving traditional values; preserving family harmony; ensuring family unity; and having the family speak with one voice. Education and development of the next generation is another key concern. The family council is the perfect vehicle for achieving all of these family focused objectives.

**Having a proper family council is an important, if not essential, step for any Asian family that is serious about continuing the family business and preserving the family wealth; and you can work around the Culture question. But it has to be realized that the goal of overcoming the proverb takes work, where ever your family comes from. As James Hughes explains, a family business, like any other complex system, will naturally decay over time unless new energy is put in to it. Forming a family council in any culture takes energy.**

**The good news though is that any family that starts on this process will discover that it can also be a lot of fun!**

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