

# The Changing Face of Family Business

Transformation is the new normal for next-gen family businesses.

*By Annie Koh*

Times are changing for family businesses around the world. It is no longer business as usual—at least not as far as the next generation is concerned. Increasingly, next-generation leaders are leading their family businesses into new sectors, new products, new services, and new territories. They are testing out new business models, going global, and embracing digitalisation. In doing so, they are taking the family business out of its comfort zone and adopting sustainable practices.

Surveys signal this new reality. In 2017, PwC polled 100 next-generation family businesses online and conducted 35 in-depth interviews with next-generation firms located across 21 countries.<sup>1</sup> The survey titled, 'Same Passion, Different Paths', revealed that about 35 percent of the firms are now led by transformers. And what is significant about this group of next-generation leaders is that they are metamorphosing their firms with the blessings of the family.

Another 20 percent of the firms are taking the intrapreneurial path, where the next-generation leader creates an entirely new, unrelated venture within the family firm. These new ventures feel like start-ups but are supported and funded by the family business. Remarkably, only 20 percent of next-generation leaders are sticking to their guns, according to the survey. This small segment is concentrating on strengthening the foundations of their existing business. The remaining 25 percent chose to leave the family business entirely.

With the bulk of next-generation leaders leading the charge for change, there is one burning question: Why and how are family businesses changing in these times of disruption? It is important that we understand this. Particularly in Asia, family firms represent 85 percent of Asia-Pacific businesses and

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contribute to 32 percent of the world's total market capitalisation, playing a major role in the development of their economies.<sup>2</sup>

Leading family-owned powerhouses in Asia now account for 17 percent of the world's 500 largest family firms, including Reliance Industries from India (oil and gas), Sun Hung Kai Properties from Hong Kong (real estate), and Kuala Lumpur Kepong Berhad from Malaysia (consumer products). Furthermore, in Asia, many family firms are transitioning from the second to third generation, and some like the Ayala Corporation have been around for almost two centuries (established 1834) presently being run by the eighth generation. So we ask: What is making family businesses take the bit of change between their teeth and run like the wind?

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### Three megatrends

No firm is immune to the impact of three megatrends: Globalisation, digitalisation and sustainability. These three vectors are dramatically reshaping businesses across the globe.

- The internationalisation of markets affects every business, big and small, across the globe. With globalisation, family businesses find, for example, new competitors challenging their formerly-protected domestic markets, or formerly loyal customers now choosing price over service. In addition, the dynamic drive for growth and internationalising is hauling many family firms out of their traditional domestic stomping ground and, along the way, exposing them to a whole new set of competitors.
- The evolving digital economy and technological changes have far-reaching consequences on the business models of the typical family business. They bring along new technologies that are highly disruptive, transforming existing business practices, business models, and mindsets.
- Sustainability is fast becoming a major marketing force. Several research surveys reveal that for more and more consumers, sustainability is not just a nice-to-have; for one-third of consumers, it has become an imperative that the firms that sell them products and services are doing social or environmental good.<sup>3</sup>

Let's take a close look at how family businesses are coping and adapting to these forces and why they are excelling in this.

### Global citizens steering global businesses

Family businesses have traditionally started and grown in domestic markets. But in a world that is becoming globally competitive, they are realising the

need to internationalise in order to survive. Globalisation has changed the landscape of how consumers think, behave and spend. Customers have more options, are better informed and are more connected digitally. They are able to compare prices globally to find the best offer, as well as evaluate supporting services worldwide to find the best customer support, in both the business-to-business and business-to-consumer space.

In the new global world, all is up for grabs. Your competitors come from all corners of the earth. Every firm can gain access to a much wider market, both physically and digitally. Family businesses know that in this hyperconnected world, a global mindset goes beyond geographical expansion to a more holistic view of global networks and conduits as gateways to collaborations and market-making opportunities.

What is helping today's family businesses harness these opportunities is a new global mindset among their younger leaders. Growing up in the family business can result in their leaders becoming very self-focused. But family firms are adjusting well to this new global world because their next-generation talents have spent a lifetime thinking about how their firm is related to the world.

Typically, next-generation leaders are highly qualified and have studied in top universities outside of their countries. They have grown up in several different countries and are exposed to many cultures. They have a network of friends and associates that spans the globe. These global citizens are open to change, willing to learn and take risks, receptive to collaboration across borders, and game to remodel the business' organisational culture. They are not afraid of uncertainty



### HOW WILL THE NEXT GENERATION LEAD?

80%

of next-generation leaders at family-owned enterprises say that their leadership style will be different compared to the previous generation

56%

will change the family company's strategy

56%

will change corporate governance structures

51%

intend to take more risks than their predecessors, but in a more controlled way

Source: "Next-Generation Family Businesses: Evolution Keeping Family Values Alive", Deloitte, May 2017

and see opportunity in a world in flux. These next-generation leaders are also more comfortable working with non-family professionals to help them implement their globalisation strategies.

### An agile and quick structure

Digitalisation and globalisation are two phenomena that feed off each other. Technological advances in logistics and distribution enable many firms to transact business and cooperate on a global scale. Meanwhile, in order to benefit from global commerce, firms need to digitalise.

Digitalisation spares no firm and can seem quite threatening to family-owned businesses. The best-in-class family firms understand that disruptive technologies can render their core competencies utterly irrelevant, forcing them to chart a new trajectory. They know that they are in a perpetual global race for everything, from talent and partners to raw materials and customers. This anxiety is captured in PwC's "Next Gen Study 2017, Same Passion, Different Paths", which revealed that innovation (where innovation is not limited to digitalisation) is a big priority for many next-generation leaders. A whopping 82 percent of the next-generation leaders polled believed that innovation is not just important, it is critical. However only 15 percent mentioned that their own firm is doing very well in this area.

The risks of digitisation are high. But so are the rewards. In ASEAN alone, the digital economy has the potential of growing to US\$200 billion by 2025.<sup>4</sup> Furthermore, research by MIT Sloan shows that companies that adapt to a digital world are 26 percent more profitable than their industry peers. Fortunately, family firms have some unique strengths that they can leverage to capitalise on the boons of globalisation and to tackle the shockwaves that digitalisation brings.

First, family firms have traditionally taken a long-term perspective and are less constrained by short-term pressures to succeed. This allows them to

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invest over the long-term for continuing gains—a necessity for globalisation and digitalisation. This is because it takes time, money and qualified people to set up the infrastructure needed for a global operation or to make the most of new game-changing technology. Whether it is going into a new international market or investing in new technology, family firms are not slowed down by having to answer to multiple stakeholders.

Secondly, one of the hallmarks of family-owned enterprises is their agility. The flat structure of family firms allows them to make strategic decisions swiftly—faster than their non-family counterparts. Their short chain of command allows for quick communication and decision-making, making them highly flexible and adaptable to changes. This enables family-owned businesses to respond better to rapid technological change.

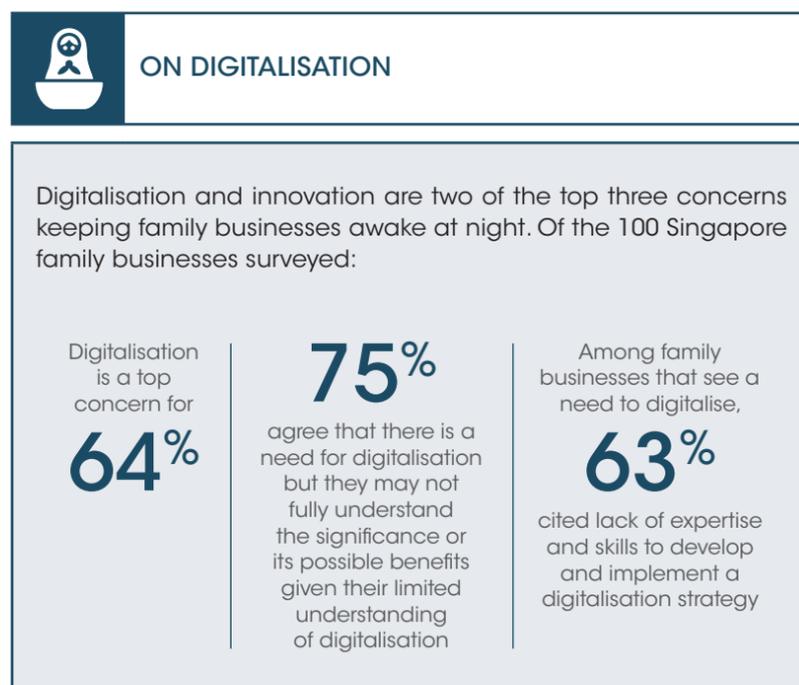
One family firm that is firmly seizing the opportunities presented by globalisation is KBZ Bank. Started as a one-branch operation in 1994 in Myanmar, the bank opened its first international office in Bangkok in 2016, closely followed by Singapore and Kuala Lumpur. Today this bank is busy establishing global representative offices that offer advisory services to foreign investors and helping them find the right local partner in Myanmar.

In 2016, SMU's Business Families Institute launched a case study on the KBZ Group in Myanmar, highlighting key success factors for the Group since its founding in 1994. A dominant force in a previously isolated country, KBZ has embraced both the opportunities (growth) and the challenges (competition) that come with globalisation. As KBZ Bank embarked on an international journey, it identified and focused on developing three key areas that laid the foundation for global success—

adopting the International Financial Reporting Standards in 2013, investing considerably in building employee capabilities, and upgrading infrastructure to match global standards.

Another example is the Ayala Corporation, one of the Philippines' oldest and most successful conglomerates. The group holds majority stakes in a range of businesses, including real estate development (Ayala Land), banking and financial services (Bank of the Philippine Islands, or BPI), telecommunications (Globe Telecom), water utilities, and power generation. With its rich multi-industry experience, it recently embarked on a series of strategic investments to accelerate the development of the Philippine's digital economy and contribute to nation-building. Ayala's pioneering entry into e-commerce focuses on an online pharmacy (ePharmacy), inclusive financial technology, and online retail spaces—sectors that are critical to the social and economic transformation of the country.

That said, this same flat structure can limit family firms too, as the simplicity of their structure is often not suitable for the complex planning required in internationalising. In addition, in globalising, many family firms still feel limited by the experiences and knowledge of the business owners.



Source: "Family Business In The Digital Economy", KPMG, 2017

### Locally committed, locally trusted

Another unique strength that family firms have is the trust they enjoy among the communities they serve. This trust is invaluable when it comes to providing products and services centred around sustainability.

Around the globe, a growing number of consumers are saying they care about social and environmental sustainability. A 2017 international study conducted by Unilever in the U.K. reports that a third of consumers are now choosing to buy from brands they believe are doing social or environmental good.<sup>5</sup> In business, sustainability refers to companies incorporating social and environmental considerations in their business operations. Keith Weed, Unilever's Chief Marketing and Communications Officer, said in the Unilever report, "To succeed globally, and especially in emerging economies across Asia, Africa and Latin America, brands should go beyond traditional focus areas like product performance and affordability. Instead, they must act quickly to prove their social and environmental credentials and show consumers they can be trusted with the future of the planet and communities, as well as their own bottom lines."<sup>6</sup>

Most family firms do not have to prove their social and environmental credentials. Enduring family businesses are good stewards of the communities they operate in. They want to generate goodness alongside wealth. They believe in improving the lives of the less privileged in the community. They want to invest in, support and build their communities.

Consequently, a hallmark of a family firm is their commitment to the local community. Unlike firms driven solely by the bottom line, many family firms want to solve local issues and do good by the local community. And the local community trusts their intentions and integrity. As a result, family firms are readily aided by the local community in their endeavours.

Because of this level of trust built up through generations, family firms can reach out quickly to the local community and get them behind their sustainability undertakings. Health Management International (HMI), an SGX mainboard listed company founded in 1991 is one such example. With a presence in five Asian countries, HMI aims to develop and build a network of comprehensive tertiary hospitals offering specialty and sub-specialty services in the markets it serves. To address manpower challenges in the sector and improve the healthcare standards in the region, HMI has developed a dedicated training institute to provide continuing healthcare education. To date, the HMI Institute of Health Sciences has trained more than 3,500 healthcare graduates in various aspects of holistic care.

In addition, family firms can make hard choices to achieve a long-term vision and run with new ideas longer than their non-family counterparts. And family firms are capitalising on this strength. We are now seeing trendsetters

in Asian family businesses harnessing business value creation with social value creation by integrating sustainability into their purpose and products. For these firms, it has become a strategic imperative to create products and services that are founded on fair trade, that are against fast retailing, that are kind to the environment, or that support communities.

A good example is FoodXservices, which started as a humble household provision shop in the 1930s and has since then evolved into a food trading and distribution business under the stewardship of siblings Nichol and Nicholas Ng. Through her experience with the family's food business, Nichol realised that while Singapore imports 90 percent of its food, it discards a massive 30 percent of it each year. Determined to find a solution to the country's food wastage problem, The Food Bank Singapore Ltd. was started as a charitable organisation in 2012 and later adopted by the family business. This company today receives about 720 tonnes of unused food a year mostly from corporations, which it then redistributes to the needy through its 250 partner organisations.

### Family firms believe in their ability to change

Another strength that family firms bring to the table is their strong self-belief. In PwC's "Global Family Business Survey 2016", 57 percent of family firms said they believe they are able to reinvent themselves with each new generation. Many family businesses in Asia are aggressively harnessing technology not only to improve business processes, but to reinvent their products and customers' experience to keep ahead of their global competitors.

The Singapore family-owned group YCH is a great example. Started in 1955 as a passenger transportation company, YCH today focuses on integrated supply chain management solutions and operates in 14 countries with a throughput of US\$38 billion a year. It is currently the region's leading supply chain partner that counts some of the world's largest MNCs and aspiring growth companies amongst its valued clientele.

The firm's success, to a large extent, is attributed to the foresight and vision of its Executive Chairman, Dr Robert Yap, who continually transformed YCH beyond its original transportation business into one that encompassed multiple sectors within the logistics industry covering the entire supply chain ecosystem. One of his main contributions was investing heavily in information technology in the 1980s and 1990s, ahead of other players in the sector, and embracing digitalisation and automation to increase productivity. As an

example, the company developed a proprietary software solution that reduced its reliance on external vendors and gave managers the flexibility to provide tailored solutions to clients.

Says Yap, “The logistics business is not easy because we are entrusted with millions of dollars’ worth of inventory. We want to be as safe as a bank and not lose a single inventory item. Our systems have to be the best and our processes have to be robust. I will be unable to monitor this closely if I take the business global. Good IT infrastructure will enable me to do that.”<sup>7</sup> In 2017, YCH launched Supply Chain City, a S\$200 million (US\$152.3 million) logistics hub in Singapore that houses state-of-the-art warehousing facilities equipped with the latest supply chain technologies. It aims to create an ecosystem to develop new technologies, support industry best practices and promote Singapore as Asia’s leading global logistics hub.

Another Singapore family business that is a role model of reinvention through technology is Sing Lun. The company first began as a textile trader, then into apparel manufacturing, and is now a diversified holding company in areas of manufacturing, real estate and investments. In order to cope with industry changes, Sing Lun’s apparel manufacturing business embarked on ‘innofacturing’—innovating in manufacturing to create high-value technical sportswear products, including collaborating with a U.K. company to create a shirt with washable sensors that measure heart rate and muscle fatigue. Beyond the obvious application in high performance sportswear, Mark Lee, the third-generation Chief Executive, has grander visions of diversification into healthcare. Sing Lun has since spun off its apparel manufacturing arm into SL Global, so as to take the business even more global, and the entity operates manufacturing and sourcing facilities across Asia, and serves global brands such as Under Armour, The North Face and Puma. Its last reported annual revenue is around US\$230 million.

### **Think global, think digital, think giving, and think generations**

In an era of rapid change offering boundless opportunities, family businesses need to transform themselves from wealth creators to value creators to stay ahead. To thrive in this world of flux, family businesses must embrace a new ethos of think global, think growth (which includes digital), think giving, and think generations.

I believe that family businesses have the upper hand compared to their non-family counterparts in dealing with the challenges posed by disruption and change. That is because speed, agility, vision, and organisational will and support are needed to perform the massive transformation required to succeed in uncertain markets. And these are qualities that family firms possess in spades.

For example in family firms, information flows faster, allowing owners to make decisions quickly in response to changing internal and external market conditions. This makes family firms a high-performance engine for change.

Nevertheless, to survive in an economy characterised by a blazing pace of change, emerging technologies and disruptive business models, family businesses must have a clear and informed picture of what the near future will look like for their firms. This means understanding global trends that are affecting the marketplace and assessing the viability of their product or service in light of emerging technologies. The research shown so far has indicated that if family businesses are willing to adapt, they are poised to thrive, and the 21st century will belong to family businesses.

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