



i3L



Business Family
Forum

Module # 1, DAY 1

Creating a Shared Vision for the Next Generation of a Business Family

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A Knowledge Powerhouse for Indonesian Business Families

With Families, From Families, For Families

1. The Special Nature of Family Business

- A. Family businesses are the major way that business is done in the world; yet it has been over-shadowed by focus on public companies.
- B. Family Business has special advantages and capabilities that make it effective. These can also lead to problems if overused.
- C. The challenge of family business – to use family relationship not have them overcome the business.

Family Business & Business Family

- Which comes first – Family or Business?
- Family business is a commercial organization in which decision-making is influenced by one or multiple generations of a family through management or ownership.
- As the family expands in generation, shareholdings become dispersed and complex, not all family shareholders will have the same level of commitment and interest in the family business.

Family Business Outing





Background of Wen Ken

- Wen Ken was founded by Fu & Chan in 1937. Faced cash flow problems, invited Foo to invest money as a silent partner. Needed sales expertise, invited Chong to join as the 4th partner.
- Fu, Chan & Foo were *Yongding Hakka, Fujian*; Chong was *Huizhou Hakka, Guangzhou*.
- Brand owner of Cap Kaki Tiga (Three Legs Brand) in Singapore, Malaysia, Indonesia, etc.
- Product range: Western OTC medicines, TCM, Traditional Medicines, Health Supplements & Functional Foods.
- Export to 20 over countries & won numerous awards, including heritage brand and regional brand awards.
- Activities: branding, R&D, manufacturing, marketing, licensing, distribution, wholesale, consultancy and lab services, and investing in public, private equities, and properties.



Background of Wen Ken

- Converted long term local distributors into Special Trade Partners (STP), when we appointed national distributors in West Malaysia in the late 90s.
- The group is now helmed by three G3 – two from the Fu family & one from the Chong family, and managed by a team of professionals in all business functions.
- At one time, there were three G3 from the Chan family, but they left the family business on their own accord.
- Qualified family shareholders: Founders, and any wife or widow of founders. Any son, daughter, adopted son or daughter of founders. Lineal descendants (through males) of founders and any wife or widow of such descendants.
- Had a Shareholder Tree Pruning Exercise in 2005. The Fu family bought over part or all shares from the other three families' members who wanted to exit.
- Currently the shares in Wen Ken are held by G2 & G3, about 30 shareholders.
- More information: www.wenken.com

Banyan-inspired

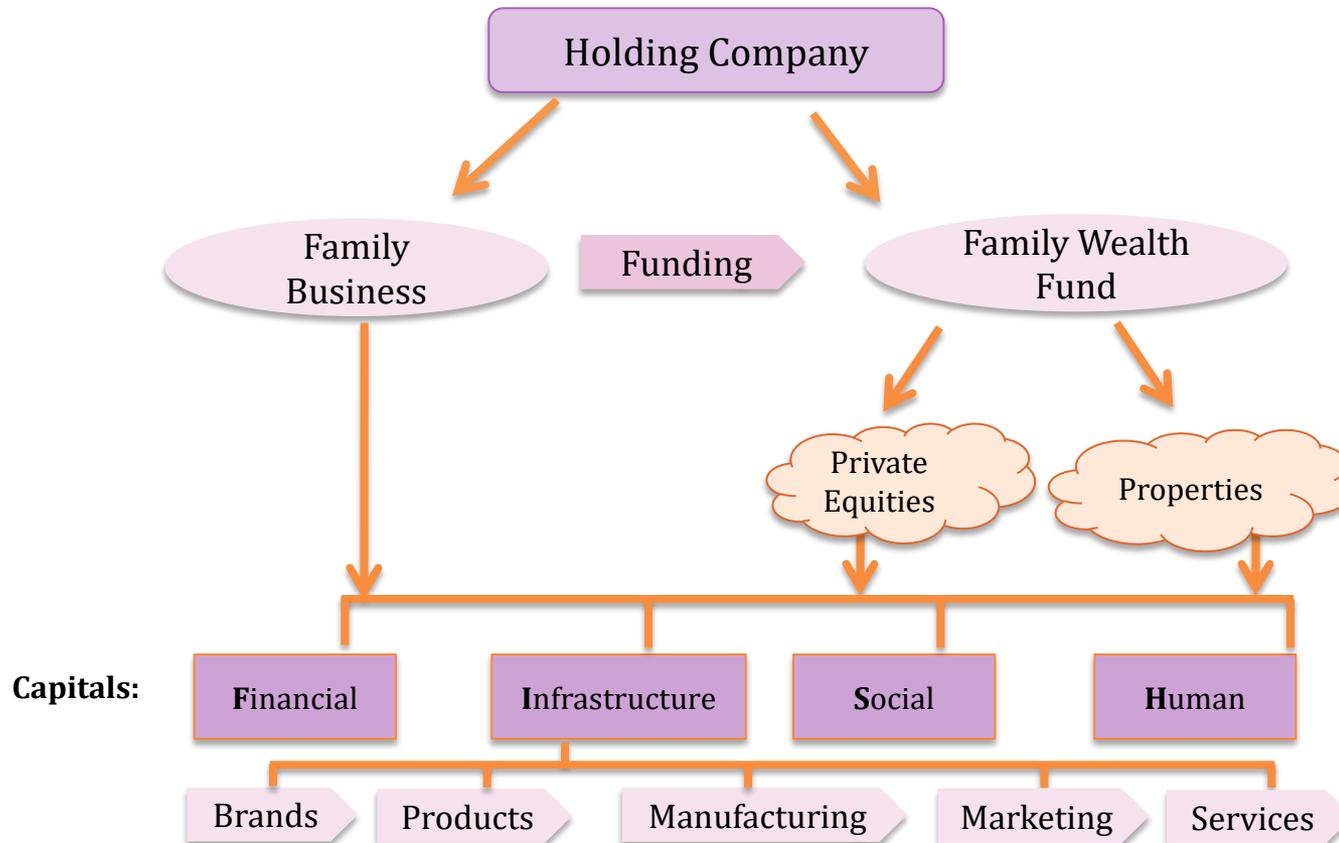


A Banyan grows by spreading out its crown, and when it is sufficiently established would lower down little experimental roots to touch and explore the ground beneath. Once these roots find fertile soil, they would dig deeper, and transform into new trunks, whilst the rest of the tree continues growing and exploring, seeking for newer niches to establish itself in.

So the tree is able to support itself even if one or two trunks fail. In effect, no trunk gets left out, for all is part of the tree, but the tree would never die being without any one of its trunks either. It would live still on, even with the passing of one trunk, for it still sustains and is sustained by many more...

(By Bryan Cheong)

Wen Ken's Business Structure



Background of a G3

- G2 business leader (Fu family) took 7 years to recruit CWK (G3).
- CWK joined Wen Ken in 1995, and handed over business leader role to the Fu brothers after 2011.
- Chartered Accountant and holds a Master degree in International Marketing. Prior to joining Wen Ken, he was a venture capitalist and business angel.
- His original plan in joining Wen Ken was to corporatize the family business and to public list a JV company.
- Family members involved in Wen Ken - his father, second uncle (deceased in 2014), third brother (2003 - 2007) and two maternal cousins.
- His father CKN (G2), 88 years old, is Wen Ken's non-executive Chairman. CKN is the eldest son of founder Chong.
- CWK is second son of CKN, and fourth grandson of founder Chong.

Background of a G3

- Motivating factors of joining Wen Ken because of the RAFT[®] : Resources, Appreciation, Freedom and Time.
- CWK co-invested with Wen Ken in his maternal cousin's company - GlucosCare.
- Main reason of investing in GlucosCare was to recruit his maternal cousin as entrepreneurial manager for Wen Ken's international business.
- After relinquished as business leader, CWK remains as EXCO of Wen Ken, and manages his own investment portfolio and advisory company - Business Concept.
- CWK is married with 2 boys and one daughter. Eldest son is studying in the USA, daughter in the UK, and youngest son in JC 2, Singapore.
- More information: www.bc.com.sg

Special Advantages in Family Business

- Family successors - nature plus nurture, hands-on training and early exposure of the next generation to the business.
- Security of position – long term thinking, greater risk taking,
- Speed - faster decision making, less bureaucratic
- Family atmosphere - people first, built-in trust, good morale and family loyalty.
- Family name – prestige, community pride, maintaining reputation and community good will rather than on the fast profit
- Strong relationship with stakeholders – provides years of repeat business and invaluable industry information
- Vested interest – personal attachment, more efforts go into the business

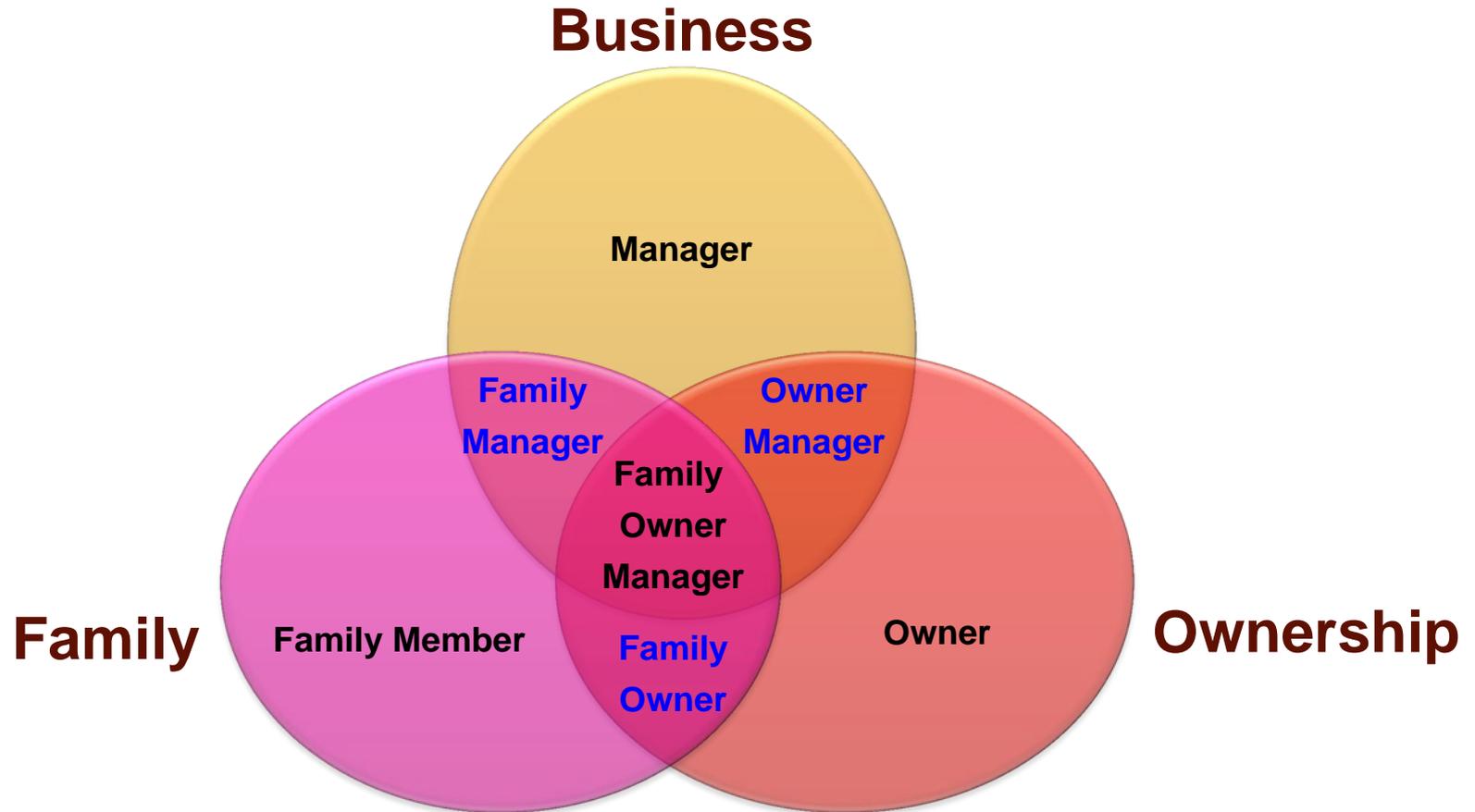
Challenges in Family Business

- Getting the RIGHT family successors and employment terms for family members working in the family business
- Retiring family members from employment
- When family shareholders want to exit – valuation, funding and timing.
- Attracting, recruiting and retaining the RIGHT non-family professionals
- Funding for business expansion or during crisis – increase capital from family members and third parties, bank loans, and personal guarantee.
- Applying proper governance in JV and business deals with distant relatives and long relationship business partners

2. The Three Circle Model: Different Roles in Family Enterprise

- A. Defining ownership and management for family members
- B. What are the perspectives of each role: how do they interact
- C. How the roles evolve over time: transition to different circles
- D. WORKSHEET: Applying the model to your family, now and in 7 years

Three Circle Model



Family, Owners & Business

- Family, owners and business (management & employees) have different, sometimes conflicting, values, goals, and actions.
- Family's interests may not be aligned with the interest of the business. And, within the family, one family member's interest may not be aligned with another family member.
- Owners may include family members, outside investors and employee-owners. They are concerned with capital appreciation and dividends.
- Management and employees are concerned with business performance, company's reputation, career opportunities, bonuses and performance measures.

Trusteepreneur in Business Family

Trustee

- ✓ Protects assets
- ✓ Ensures stability
- ✓ Provides dividends

Entrepreneur

- ✓ Increases assets
- ✓ Rejuvenates business
- ✓ Invests profits

Meaning of Family

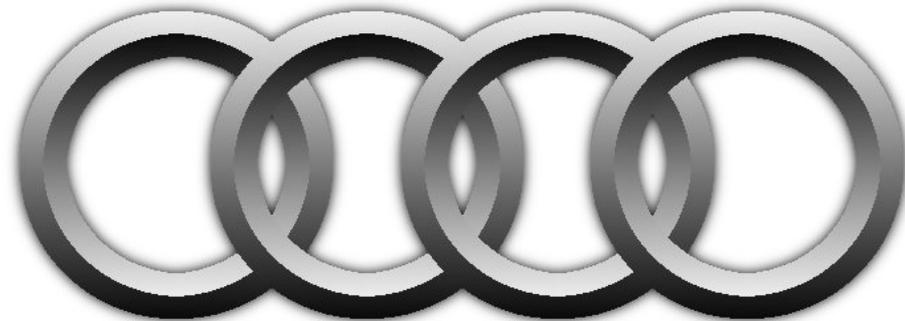


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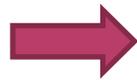
Jiā

A Roof over a Pig

Evolution of Business Family



Family
Business



Business
Family



Investing
Family



Philanthropic
Family

Meaning of Business



Shēng

Shoot emerges from ground



Yì

Voice from the Heart

Business Eras

- Agricultural (Before 1800's)
- Industrial Revolution (1800's)
- Industrial Entrepreneurs (1800's)
- Production (1860's – 1920's)
- Sales (1920's – 1940's)
- Marketing (1940's – 1990's)
- Relationship (1990's – 2010)
- Social/Mobile Marketing (2010 – Present)

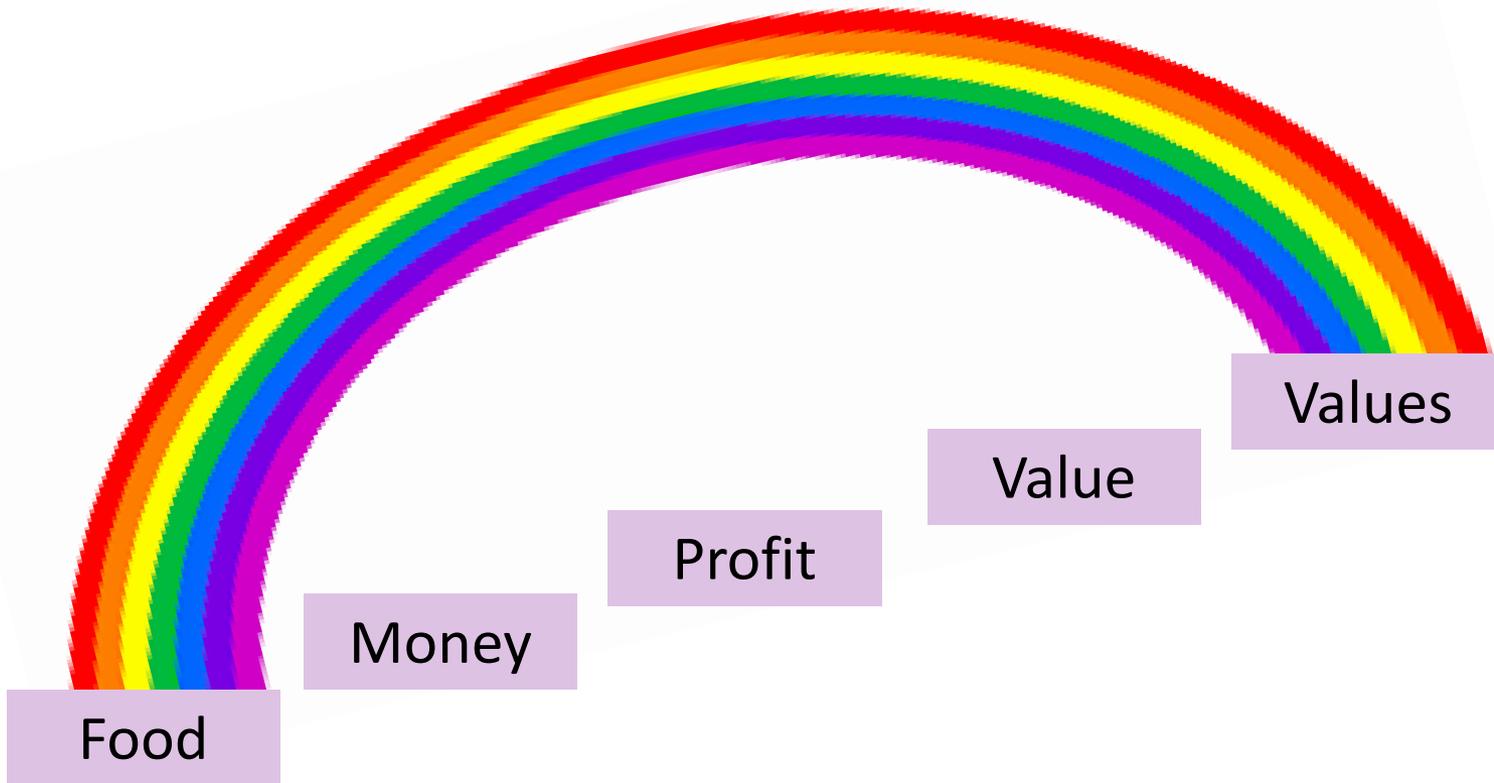
Meaning of Wealth



Fù

A Roof over a Wine Jar

Evolution of Family Wealth



From basic needs
on food & shelter

To pursuing passions,
values & rainbows

3. Crossing Generations: From Founder To Siblings

- A. Qualities of the business founder
 - 1. Immigrant to wealth
 - 2. Entrepreneur
 - 3. Little idea of how to mentor next generation

- B. Qualities of the second generation
 - 1. Digital, global perspective
 - 2. Grew up with wealth

- C. The nature of generation change
 - 1. Internal: change in the family
 - 2. External: change in the business environment

- D. WORKSHEET:
What sorts of change do you anticipate in your business?

Crossing Generations

Personal Style of Wealth Creators

Business defines identity

Business focuses on him

Total self-confidence

Improviser, thrives on crisis

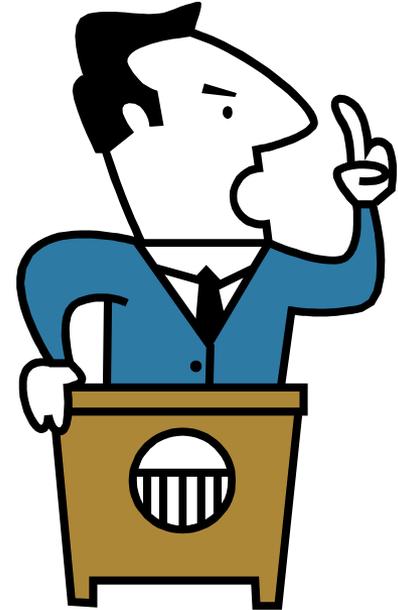
Downsides

Lives in a bubble

Can't let go of control

Secretive, difficulty trusting

Not patient mentor or good listener



Paternalism: Challenge for Elders

Benevolent intention, but...

- Making decisions for others for their benefit, without their consent
- Controlling (you know better than they do)
- One way nature of *trust*
- Expect loyalty, gratitude

Samaritan's Dilemma - Major downside of role

Heirs learn to be passive, uncommunicative

Change: New Generation Faces New Realities

EXTERNAL

Turbulence Globalism
Transparency Innovation

INTERNAL

- Legacy Agreements
- Emotional reality of wealth
- More families
- Diverging views & values
- Not prepared for change



Cross Generation – Family



Hakka Tu Lou (Earthen Structure)



- Extended
- Nuclear
- Single
- Transnational
- Multi-racial
- Blended
- Adoptive
- Co-custody
- Gay or Lesbian

Crossing Generation – Business

New business model deviates from old business model – not only changing the rules of the game but the entire game itself, extending from adding value to creating value, tangibles to intangibles.

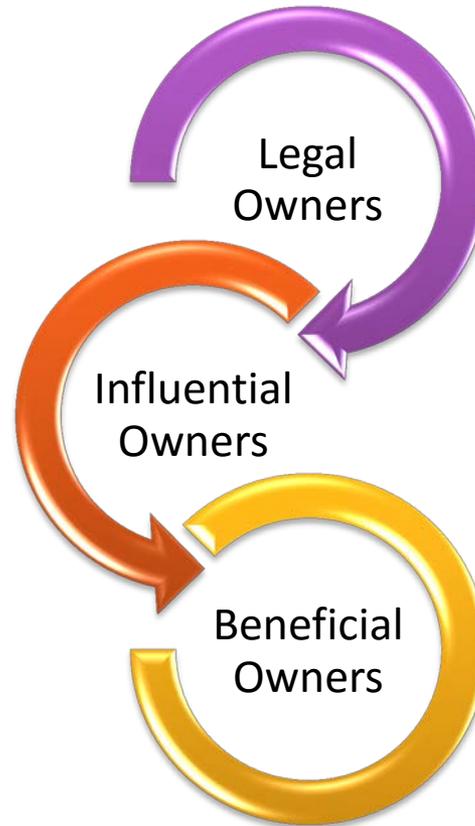


- Founded in March 2009
- Taps on the big-data with a smartphone app and created a unified marketplace that connects individual drivers with commuters.
- Transforms the taxi market for more than 200 cities around the world , without owning a single car.



- Since its inception in Aug 2008
- An e-platform for people to lease out temporary accommodation to travellers
- With over 1,000,000 listings in 34,000 cities and 190 countries.

Cross Generation – LIB Ownership



Cross Generation – Legal Ownership

Control and Ownership at early stage:

Retaining control during growth stage:

- Pyramidal structure (via Family Investment Holding)

- Dual-class shares (superior voting shares & limited shares) **

- Cross ownership

- Voting Caps

- Golden shares

- Staggered (or Classified) boards

Family grows with generations and new members:

- Family Council

- Family Trust

- Shareholder Tree Pruning

** Facebook, Google, Groupon and Alibaba

Shareholder Tree Pruning



“Family business is like a tree. It outlives the planters who planted it and continues to grow, providing fruits and shade for the planters’ descendants and passersby.

At times, the tree must be pruned, to be able to grow bigger and stronger, so it can provide even more fruits and shade for generations to come.”

4. ACTIVITY: DIALOGUE ACROSS GENERATIONS

- A. Create small groups of first generation, second generation (if possible into male and female groups).
- B. Each group talks about the general ways that they differ from the other generations. What they want the other generation to know about them, and what they offer.
- C. Also what they want from the other generation.
- D. Then the groups get together and share their answers.

What Your Life Should Be Like...

Jack Ma or Ma Yun, founder of Alibaba Group

- Before you turn 20 years old, be a good student.
- Before you turn 30 years old, follow somebody.
- Between 30 and 40 years old, you need to think clearly whether you want to work for yourself, if you really want to be an entrepreneur.
- When you're between 40 and 50 years old, you must do all the things that you are good at.
- But when you are 50 to 60 years old, work for the young people.
- When you are over 60 years old, spend time on yourself.

Dialogue Across Generations

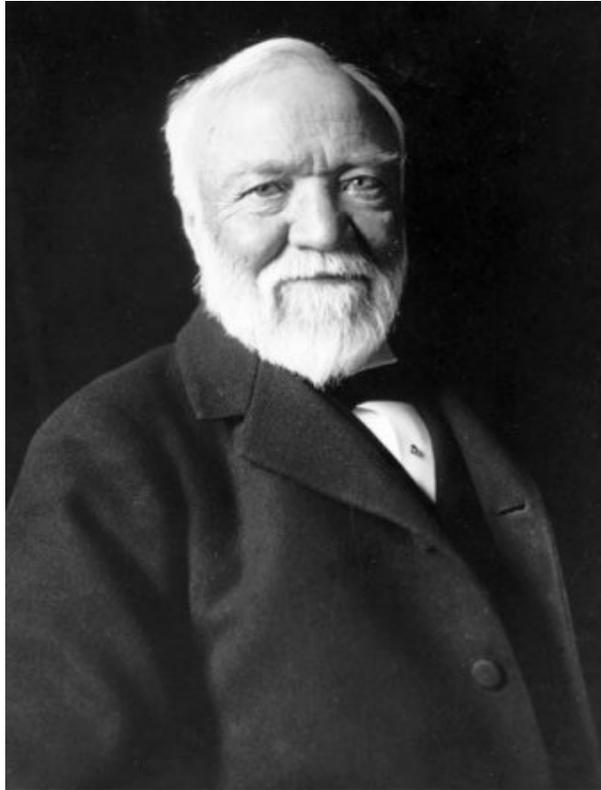
First Generation

- For the family and native
- Buy products for their utility
- They work for theirs
- Inclined to listen and follow rules
- Filial relationship with parents
- More attention spans
- Work for salary
- How to earn enough for basic needs
- Women have to handle the family
- To work abroad to earn more money
- Accepted idea of paying dues
- Children to take over family business

Second Generation

- For the nation and the world
- Buy products associated with a cause
- Feel entitled to have
- More rebellious
- Closer relationship with parents
- Less attention spans
- Work for meaningful impact
- Have to earn lots of money for better life
- Women have to handle the family and career
- To work abroad for experiential reasons
- To make an impact from the get-go
- Children can pursue their own dreams

Andrew Carnegie



“ The parent who leaves his son enormous wealth generally deadens the talents and energies of the son, and tempts him to lead a less useful and less worthy life than he otherwise would.”

FEW Trust

Family

Education

Welfare



“Love all, trust a few, do wrong to none”

William Shakespeare

5. THE NATURE OF GOVERNANCE

- A. Why the second generation needs governance.
- B. The nature of governance: making explicit policies, separating business from family.
- C. How governance evolves:
 - 1. From Family conversation to family council
 - 2. From owner/manager to owners and Board
 - 3. From informal rules to explicit policies, written and agreed to constitution
- D. CASE DISCUSSION: Luen Thai – The Tan Family

Why second generation needs governance:

- Involve more people and more complicated assets
- Multiple roles for family members - ownership, management and family
- Family employment and compensation
- To ESCAPE© family conflicts:
 - Education
 - Structure
 - Communication
 - Allocation
 - Parenting
 - Enduring

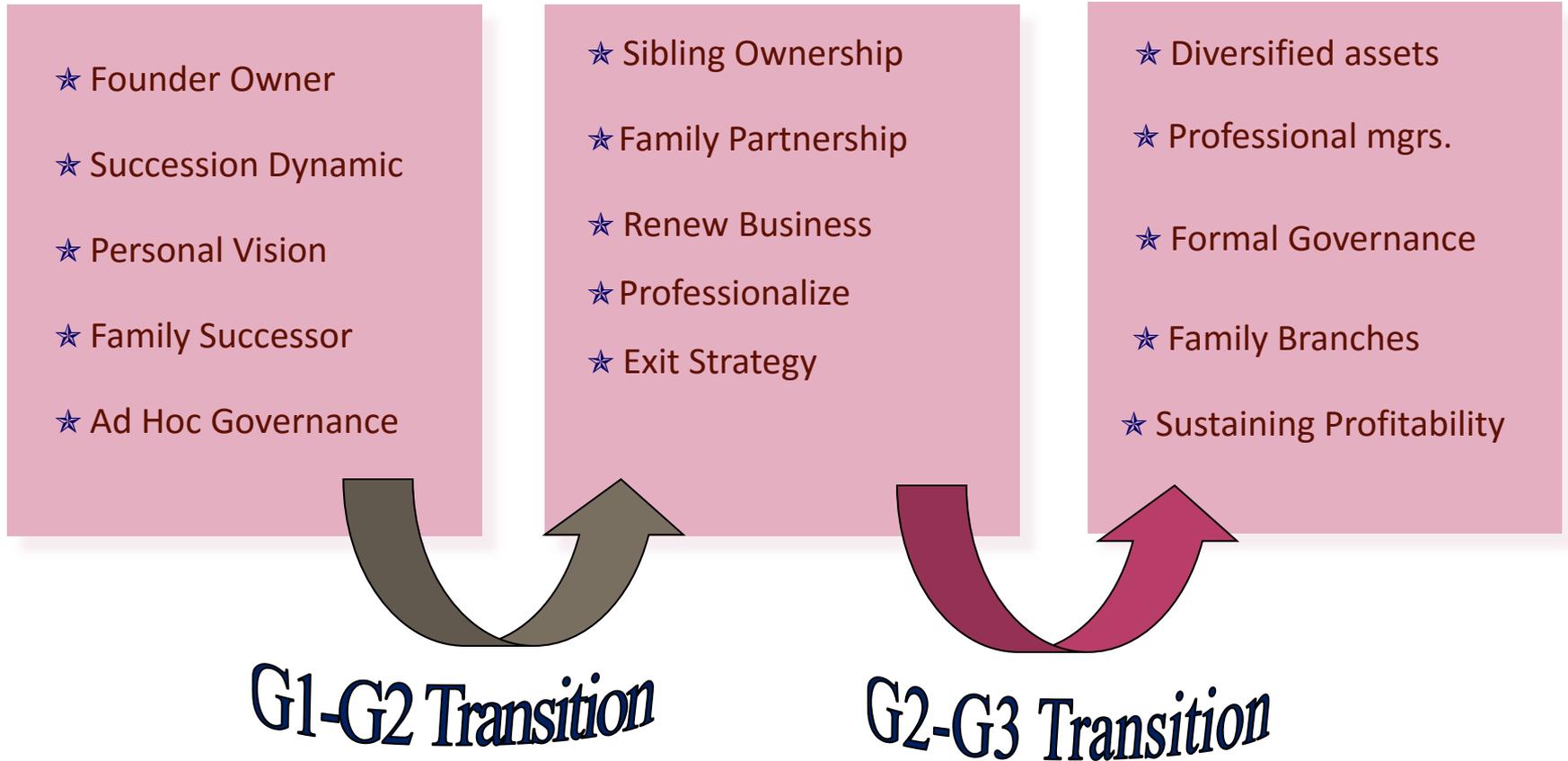
Nature of Family Governance

- Rules, practices & understandings about wealth, money and control
- Makes what has been implicit, explicit
- Defines family culture: How we do things, express our values in practice
- Formally adopted by adult citizens of the next generation

What Governance Makes Explicit

- What purpose, mission and values guide our family enterprises?
- Who has power and makes decisions?
- How do we resolve differences?
- Who will take over control?
- How can family get engaged to sustain connection over generations?
- Who gets paid for doing what & how much?

Generational Transitions of Family Enterprise



Golden Rules in Business Governance

- Business ethics
- Goals alignment
- Strategic Management
- Organisational Effectiveness
- Accountability & Transparency

Challenge of Rising Generation

- Stability, Not Transition; Less experience with risk
- Bi-cultural, digital natives
- Less valued, though envied
- Struggle with personal identity
- May be disenfranchised, entitled
- Need new skills & perspective to live with wealth

Elements of Governance



Councils



Information
Flow



Agreements

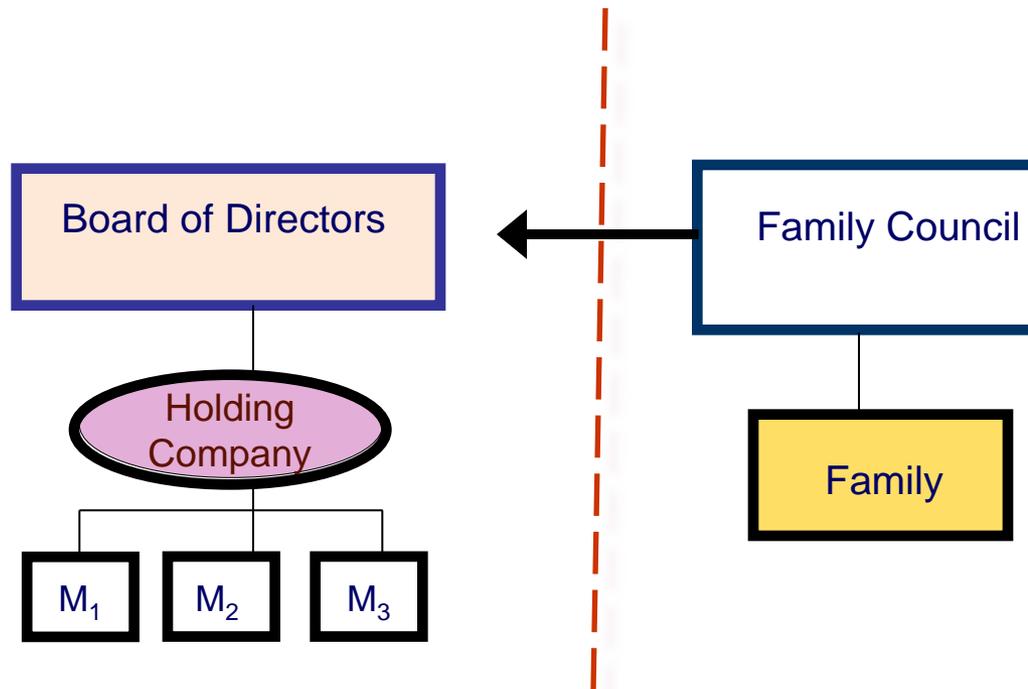


Boundaries, Roles



Accountability
Responsibility

Business & Family Structures



Two “Pillars” of Governance

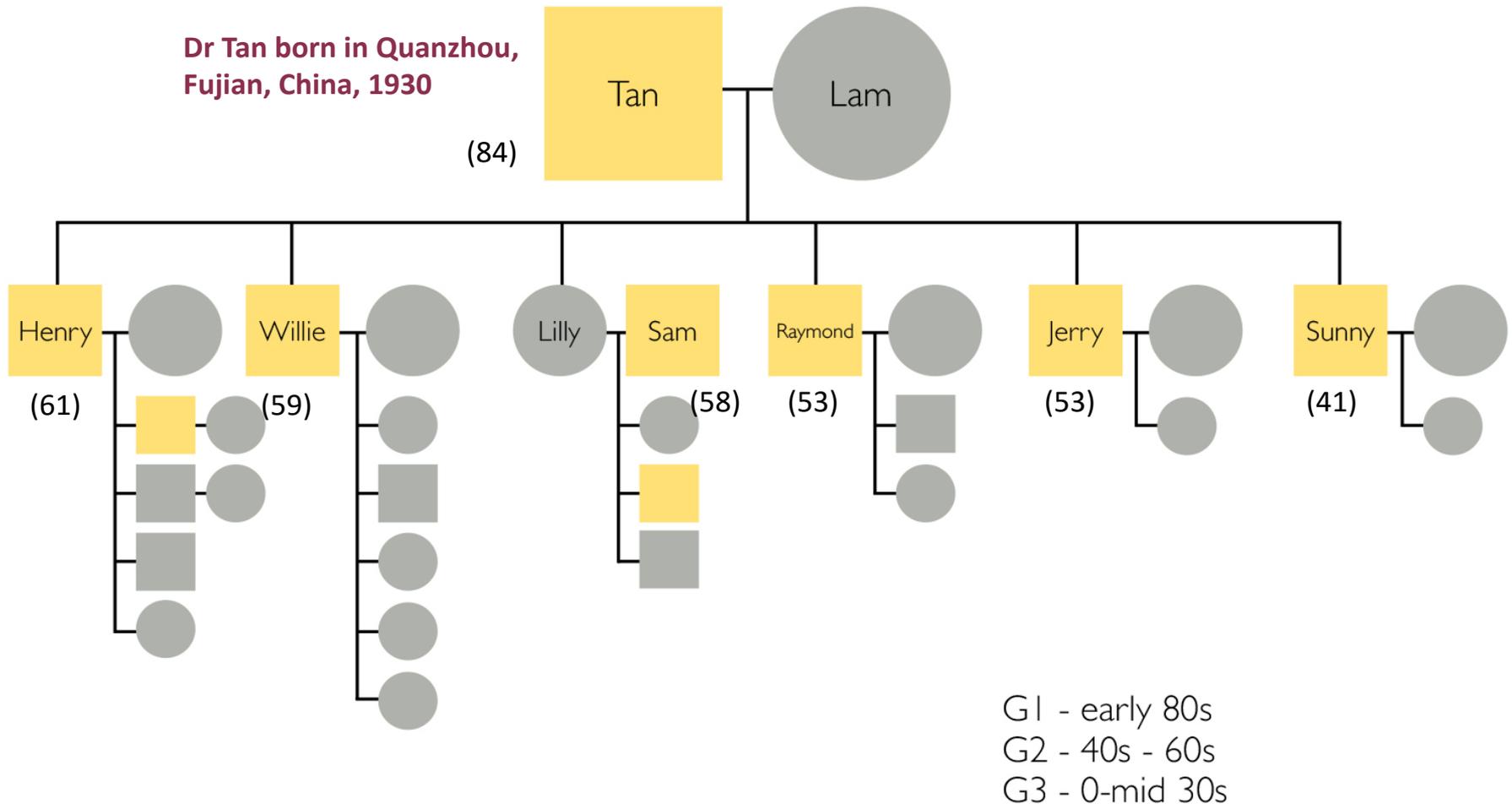
FAMILY COUNCIL

- Special trust as family
- Engage each other
- Explicit values
- Celebrate rich history
- Extensive organization
- Human capital development
- Shared philanthropy

BUSINESS BOARD

- Long-term commitment
- Clear input from shareholders
- Patient capital
- Professional management cadre
- Non-family CEO option
- Exit policy for shareholders
- Independent directors
- Family Employment policy

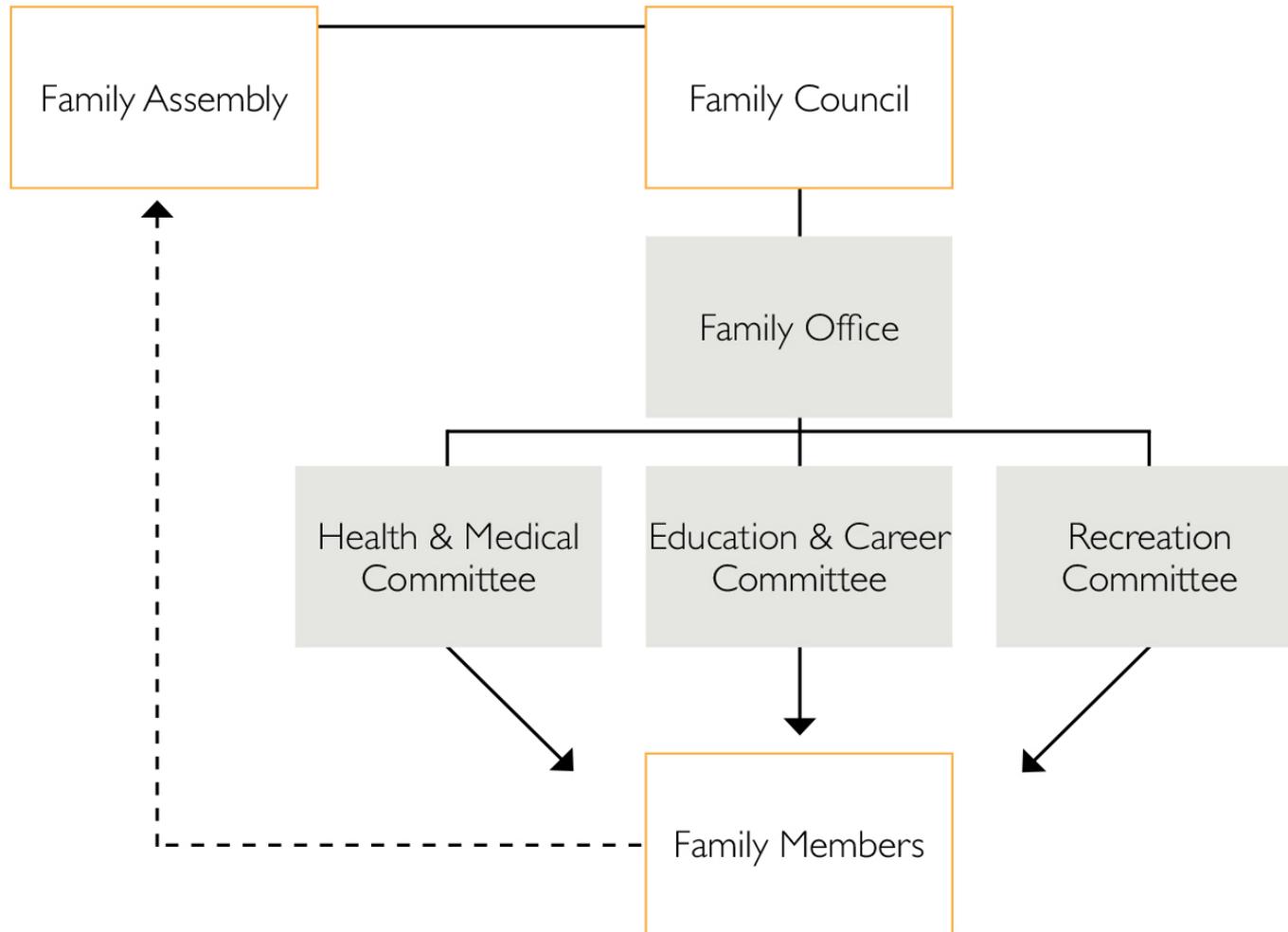
Tan Family Genogram



Sources for Tan Family Genogram, Governance Structure & Luen Thai Group Structure:

- Luen Thai: governance for the Tan's shared future. Coutts Institute, 2013
- Interview with Henry & Sunny Tan, Luen Thai Group, Egon Zehnder Int'l Inc., 2015
- Reuters, 20 Oct 2015

Tan Family Governance Structure



- Connie Hui, non family member, heads the Family Office
- Written Family Constitution as guide for the Family Council
- Annual Family Assembly with non-business family members
- Each Committee comprises 2G & 3G, meets 3 to 4 times yearly

Luen Thai Group Structure

Family Wealth: managed by Dr Tan & 2G:

- Dr Tan, Chairman
- Henry, eldest son, Deputy Chairman
- Willie, 2nd son, CEO LTE
- Sam, son-in-law, COO & President, LTFV
- Raymond, 3rd son, President, Luen Thai Int'l Group Ltd, subsidiary of LTHL
- Jerry, 4th son, President, TH
- Sunny, 5th son, CFO LTHL

Luen Thai Holding Limited (LTHL):

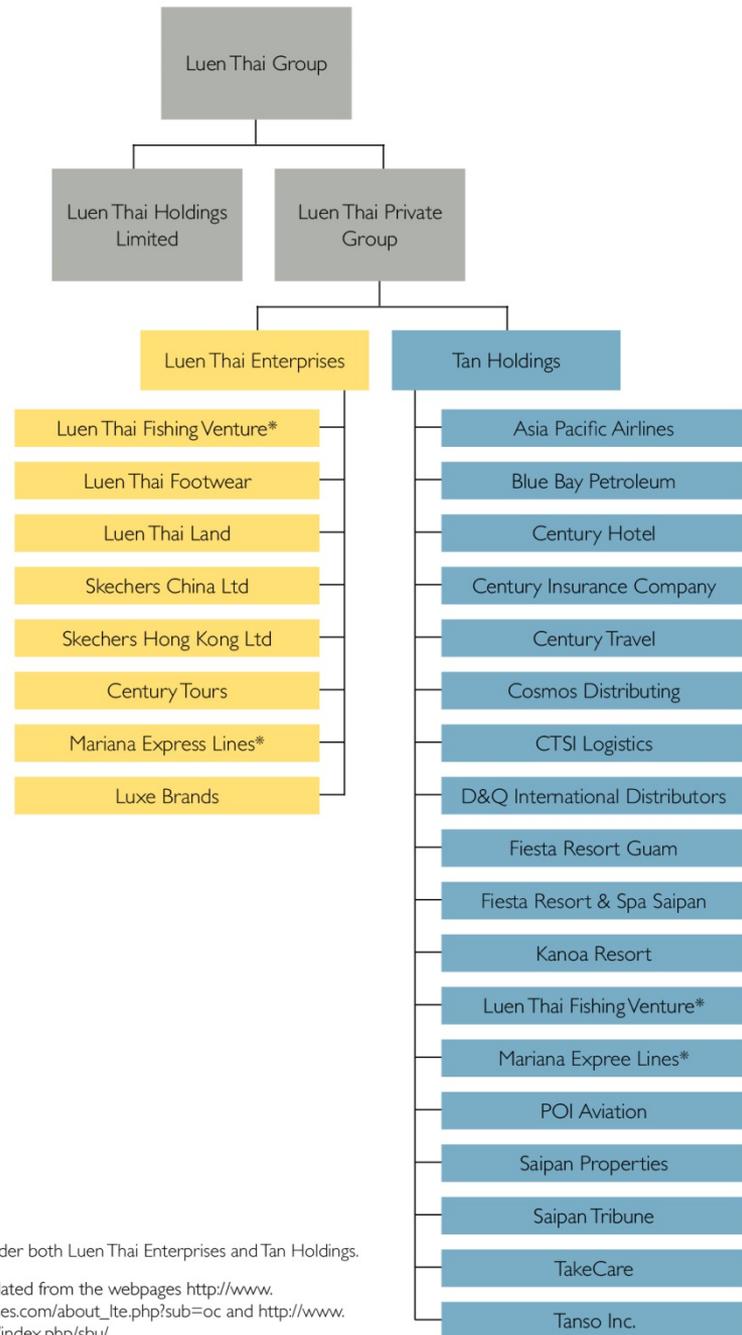
- Apparel business
- Listed HKSE 2004
- 30-40% Independent Directors

Luen Thai Enterprise (LTE):

- Ventures in China

Tan Holding (TH):

- Ventures in Micronesia



* Companies under both Luen Thai Enterprises and Tan Holdings.

Source: Consolidated from the webpages http://www.luenthaienterprises.com/about_lte.php?sub=oc and <http://www.tanholdings.com/index.php/sbu/>

Meaning of Harmony in Family

龠禾

Yuè

An ancient Chinese
musical instrument

禾

Hé

Grain

和

Hé

Balance & Order
Respect & Appreciation
Coexistence & Cooperation