

FISH to create and preserve wealth

A FAMILY business leader is not merely a manager of CEO, he or she has to be both an entrepreneur and trustee entrepreneur – balancing the need to create and preserve wealth.

That's the role internationally known business family strategist Cheong Wing Kiat had to assume when leading the Wen Ken Group, a successful three-generation four-family pharmaceutical group based in Singapore.

Now an advisor to family businesses throughout the Asian region, Cheong said he adopted what he calls the FISH Sustainability Model.

This simply means:

- **Financial Capital:** Operational Financial Capital to manage the family's current businesses and Accumulated Financial Capital for investments, including new businesses, public equities, bonds, hedge funds, commodities, precious metals and the like under the Family Wealth Fund.
- **Infrastructural Capital:** Comprises Intellectual Capital in brands, products, services, etc and refers to business infrastructure in markets, distribution, networks etc.
- **Social Capital:** Include the family's social networks – family, business, community and cross-border networks as well as its philanthropic and to corporate and individual social responsibility initiatives.
- **Human Capital:** Family members as business owners, non-owners and potential business managers, as well as non-family members as business managers and even part business owners.

"In Asia, as more families join the ranks of the wealthy, concerns over wealth succession while, at the same time, keeping a sense of family cohesion, are increasing," he says.

Whether or not conflict among the ultra-rich families in Asia is prevalent is, perhaps, a subjective view, although it is true media reports of wealthy dynasties fighting over their fortunes are pretty commonplace.

The battle for control over the business empire between the Ambani brothers in India, the dispute of the Kwok family in Hong Kong that saw the eldest sibling ousted as Chairman and Chief Executive at Sun Hung Kai Properties and the legal bun-fight over the late Taiwanese tycoon Wang Yung-ching's estate are just some of the headlines that captured attention.

Says Cheong: "Personalities aside, the sad part is that for such families the business operations are often excellently set up – but the family side isn't.

"It is probably true to say these conflicts, more than anything else, have contributed to the disintegration of many businesses controlled by Asian families.

"They also highlight the need to separate family matters from business matters because the clearer the boundary between the two, the more robust the business will be and the less likely you'll have family conflicts."

Cheong says it is essential to eliminate role confusion between family rules and culture, and what should be done in terms of best commercial practices.

"Much of Asia's family wealth has been created over the last few decades, so the idea of a Family Office – an institutionalized and formalized model dedicated to the financial, corporate and personal needs of wealthy families – is still foreign to many of the region's high net worth individuals.

"I remember when I first mentioned the need to start a Family Office within Wen Ken, there were some within the family who thought it would simply perform administrative functions – like a centralized administrative hub.

"Of course, family offices have existed in the UK, US and Europe since before WW2 – so it is no surprise to see they have become very interested in developing a presence in Asia today. Private banking units of large financial institutions have established advisory divisions targeting wealthy families.

"It is only in the last year or so that universities here have established courses focused on the role and structure of family offices, creating greater awareness of how essential family offices are in preserving wealth."

A stumbling block to a greater embrace of the family office concept in Asia is language.

Part of the wealth in the region is controlled by the families' patriarchs and matriarchs.

"These early migrants were poor, didn't have formal education – and spoke very little English. So how do you explain the concept of hedge funds in Hakka, or even the term Family Office? Asia isn't homogenous. Even among the Chinese, there are distinct differences – for instance, the China Chinese, the Singapore Chinese and even the Malaysian Chinese. We are all different," says Cheong.

This language barrier makes gaining the trust and confidence of the older generations and family members a tremendous challenge for family offices and wealth managers, especially those from the US or Europe.

"Relationships take time to build. If you push too hard, you're not going to get into the inner circle."

A few years ago, Swiss bank UBS teamed up with Campden Wealth to conduct an extensive survey of the role of the family office in Asia.

Entitled *Growing Towards Maturity: Family Offices in Asia-Pacific Come of Age*, it explored current perceptions of the ultra-high net worth individuals and the growth of family offices in the region. The key findings were:

- There is a strong link between Asia-Pacific's family offices and their family businesses. More than 80 per cent of family offices are connected to the firm where the money was first made.
- Asia-Pacific family offices have significant assets tied up in core family business holdings and illiquid assets.
- Asia's cultural imperative is confidentiality which affects family offices' willingness to outsource services.
- Only 38 per cent of family offices surveyed had written risk policies and guidelines. However, all responded that they formally manage their banking and custody risk.
- Hong Kong, Singapore and Australia are the most attractive locations for family offices due to favourable economic, social, and tax conditions.

As Asian businesses – and family businesses – become more and more sophisticated, many of the well-run ones have assessed specific aspects of their operations to ensure they are well positioned to withstand the challenges thrown up by an ever-changing economic landscape while being able to exploit future opportunities.

"While a family office may not initially be seen as a "business" as the term is commonly used, many families are in fact highly complex businesses, operated with the same disciplines that are hallmarks of the most admired publicly listed companies," says Cheong.

Broadly defined, a family office is an entity created to oversee, directly or indirectly, the financial matters of a family. This might include investment oversight and financial reporting, as well as legal, regulatory and reporting compliance.

Many of the earliest family offices served the wealthiest families in Europe. These offices oversaw multi-generational business holdings and served as the blueprint for many of the US-based family offices that were established as families amassed high levels of wealth starting in the late 19th and 20th centuries.

The wealth of some of these families took a hit during the Global Financial Crisis of 2008/2009 as many so-called 'safe' investments were subject to restrictions that limited their liquidity and further exacerbated financial uncertainty.

"Many of these wealthy families have taken a different view of risk these days, with the GFC changing the expectations of many regarding future returns. In light of this tumult, many of these wealthy families have reassessed the roles and structures of their family offices in the current climate," says Cheong.

"Concerns over preserving net worth, maintaining sufficient liquidity and realigning their business and investment holdings in the face of a more challenging future are putting even the most well thought out and designed family organizational structures to the test."

But wealth and value do not reside only in money in the bank or in dollar investments.

"Wealth and value extends to the brand or brands created, the uniqueness of product and service – and also the business's distribution channels and networks," says Cheong. These might be intangible, but they are indeed the very essence of the family business operation.

"Which is why the family business leader needs to be both a wealth trustee and an entrepreneur, who is constantly looking to add value to his infrastructure and operations with new products, new services and greater positive brand awareness.

"We're operating in a rapidly changing world, where businesses of all sizes are facing great community pressure to display ethical behavior – to display social responsibility.

"Put simply, doing what is right and good in business broadly defines the concept of community social responsibility. Because of family involvement in the business and ties to the community, family businesses hold a unique perspective of social responsible business behavior."

Socially responsible decisions connect the family business to the community. The overarching goals of family firms – employee satisfaction and productivity, owner financial security and benefits, development of new quality products, personal growth, social advancement and autonomy; good corporate citizenship and job security – mirror the goals of the community at large. Indeed, community orientation makes it more likely for family companies to demonstrate environmentally friendly practices and policies, contributing to sustainability.

"Very early in the life of the Wen Ken Group, we believed strong in reaching out and giving back to the community. Since the founding of the group in 1937, *Love* and *Gratitude* has been one of the driving principles behind our business philosophy.

"In this context, *Love* represents care for the community and *Gratitude* being grateful for what we have and learning to pass the blessings on by giving back to society. These values have remained unchanged over three generations and five successions.

"Our aim is to go beyond cash and product sponsorships and volunteering as an organization towards inculcating a spirit and volunteerism among our employees, too.

"Since 2010, it has developed a programme of regular management-employee dialogue to draw from employees at all levels suggestions, proposals and feedback to further enhance the group's CSR activities. They are encouraged to put forward causes they personally support, the aim being to raise the level of individual involvement and to encourage employees to champion charitable causes from which they derive positive values and personal satisfaction."