

PLANNING FOR PROSPERITY

Assessing family business future-readiness in
South and South-east Asia



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About the report and acknowledgements

Planning for prosperity: assessing family business future-readiness in South and South-east Asia is a report from The Economist Intelligence Unit, sponsored by SAP. Kim Andreasson is the author and Michael Gold the editor. The analysis in the report is based on a survey of 300 executives conducted in January and February 2018. All respondents work for a family-owned business in which family members are actively involved in running the business and play a role in setting the medium- to long-term strategy.

Survey takers come from Bangladesh, India, Indonesia, Malaysia, the Philippines, Singapore, Sri Lanka and Thailand, with a minimum of 30 respondents in each. Manufacturing (18%), IT and technology (17%), and retail (12%) were the most commonly represented industries. The main functional roles of survey takers were general management (20%), IT and technology (20%), and operations (18%). All executives represent small- and medium-sized enterprises (SMEs) with more than 500 employees or annual revenue greater than €100m but less than €800m.

Additional insights were obtained from in-depth interviews with experts. Our thanks are due to the following individuals:

- David Harland, co-founder and executive chairman, FINH, Australia
- Roger King, founding director, Tanoto Center for Asian Family Business and Entrepreneurship Studies, HKUST, Hong Kong
- Annie Koh, professor of finance, vice-president, Office of Business Development and academic director, Business Families Institute, Singapore Management University
- Kavil Ramachandran, clinical professor and executive director, Thomas Schmidheiny Centre for Family Enterprise, Indian School of Business

Executive summary

Family-owned businesses in South Asia (also known as the Indian subcontinent) and South-east Asia face new challenges given the rapid pace of change in technology and markets. This is a global phenomenon, underscored by data which suggests that 38% of SMEs in the UK could go out of business within five years if they do not adapt.¹ No longer insulated by family connections and loyal customers, they must change their ways of doing business to meet emerging demands. They recognise this and remain confident in their abilities, according to the survey conducted for this report.

This report finds that family business executives deem their readiness as relatively high across four categories: people, technology, processes and environment. Furthermore, almost all family business executives in the survey say that there are clear succession plans and they are open to external partnerships to bring about change. However, opinions vary between categories and countries.

The key themes are as follows:

- **Technology: the pace of technological change is a chief challenge.** Executives say their readiness in terms of technologies such as data analytics and cloud computing is very high, yet there is anecdotal evidence that actual implementation is lagging due to scepticism among older generations. In addition, the pace of change of new technologies is the biggest challenge facing family businesses, according to four in ten (39%) survey takers.
- **Succession: planning on paper, not in practice.** In the survey conducted for this report, almost all respondents (95%) say their business has a clear plan for succession. In reality, however, experts say planning is largely a notional exercise as tradition and culture weighs more heavily in actual implementation. This presents a particular generational challenge between the old ways of succession preparation and a new generation embracing modern planning.
- **Partnerships: external solutions are increasingly palatable.** Asian family businesses primarily look to external advice to overcome hurdles instead of relying on their relatives. Survey takers are also turning to other companies for partnership opportunities to stimulate growth. Foreign SMEs are the preferred option (37%), followed by large domestic companies (35%) and large foreign companies (34%), likely because they enable access to new technologies and markets.
- **Regional disparities: survey takers in South Asia are more bullish in their readiness than those in South-east Asia.** In a confidence barometer constructed for this study, respondents from South Asia scored 8.31 out of ten, versus 7.90 for their counterparts in South-east Asia. One reason may be that family businesses in South Asia are older, on average, and hence have a history of generational succession, giving them more institutional knowledge to draw upon in planning for the future. Indian businesses are particularly optimistic, a finding supported by a large body of external evidence.

Assess your organisation's readiness to meet future challenges and compare your results with the survey panel using our benchmarking tool, available [here](#).

¹ Christian Doherty, "SMEs must adapt or struggle", SME Insider, June 30th 2016, <http://www.smeinsider.com/2016/06/30/smes-must-adapt-or-struggle/>

Introduction: family business values in a new world

In Asia-Pacific, 85% of businesses are family owned and have been estimated to generate about a third of total nominal GDP for the region.² Today, however, they face significant challenges. Succession planning is often considered one of them. “Many family-owned businesses do not want to address this,” says Annie Koh of Singapore Management University. She notes, however, that there are regional differences in this regard. “If you look at South-east Asia, family businesses are younger, generally in the first and second generation,” says Ms Koh. “By comparison, if you look at South Asia, you will find older family businesses, in the fourth to fifth generation.” She says it is likely that the longer a family business has existed the more likely it is that they have a structured system in place, both for corporate governance and for family succession.

In the survey conducted for this report, almost all respondents say their business has a clear plan for succession. “But based on tradition, this is not necessarily in a written form,” says Roger King of the Tanoto Center for Asian Family Business and Entrepreneurship Studies, HKUST, whose research focuses on ethnic Chinese. He says many companies don’t have a written will or trust. For example, Chinese tradition simply implies that the first-born son is the successor by default. Many in the next generation, however, were educated abroad and are more Western-oriented in their thinking, which can create a clash with traditional ways of planning.

Rapid change

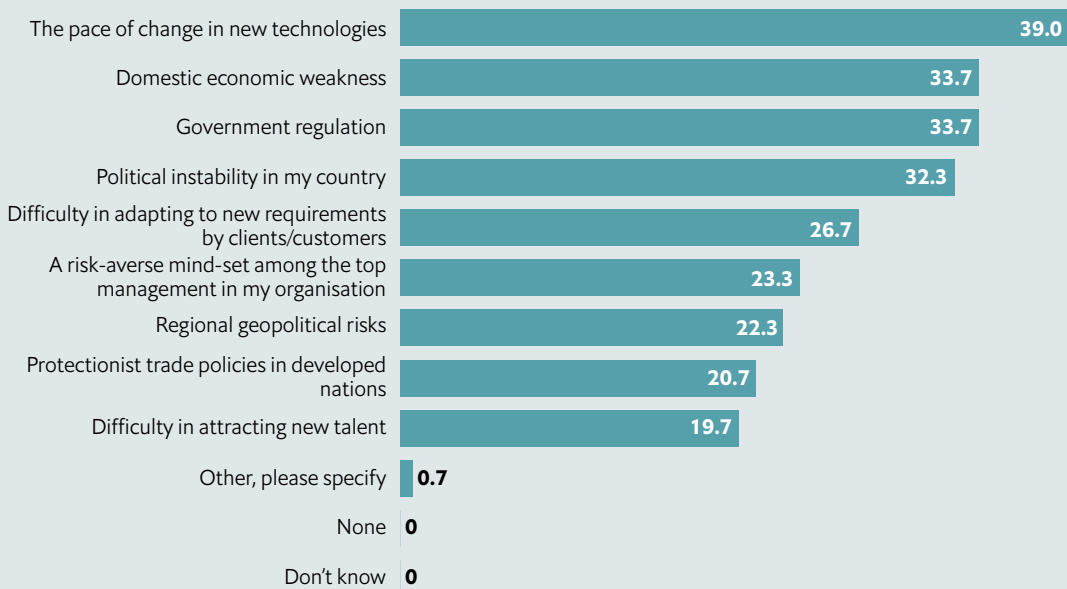
“The old generation has to learn how to let go and let the next generation run the business professionally,” says Mr King. Other experts echo this sentiment. David Harland of FINH, an Australian company that consults family-run enterprises across Asia, says his firm gets most of its business through word-of-mouth. Leadership and decision-making are key elements in succession planning, he says. Acknowledging the challenges ahead, seven in ten survey takers say their business must change to a large extent in the next three years. “We see more and more acceptance of external advice and a willingness to learn about how things should be done,” says Mr King.

² Family business in Asia-Pacific | Facts and figures, EY, 2014, <http://familybusiness.ey.com/pdfs/page-72---73.pdf>

The pace of change of new technologies is the biggest challenge facing family businesses, cited by 39%, followed by domestic economic weakness (34%) and government regulation (34%). “The world is changing so quickly with technology disruption, globalisation and industry consolidation,” says Mr King. “New technology itself is a big challenge, such as artificial intelligence (AI) and robotics.” In response, seven in ten survey takers say their company is very likely to adopt a new business model.

Chart I. Facing the future: which of the following do you believe will present the most significant threat to your organisation’s growth over the next three years?

(% of respondents)



Source: The Economist Intelligence Unit

The barometer of family business future-readiness

In our survey, executives were asked to rate their readiness or confidence across four categories on a one to ten scale. An answer between one and four was considered low readiness, a score of five to seven indicated medium readiness while a score of eight to ten suggested high readiness. Given the differences in the number of questions per category and the number of respondents per country, the scores were weighted in order to use numerical answers as a proxy for readiness/confidence across countries.

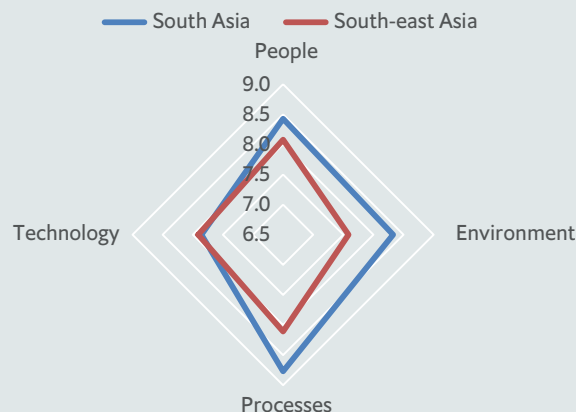
Findings

The barometer of family business future-readiness shows that survey takers are highly confident. The average score across all geographies and categories was 8.03 (out of ten). Respondents had the highest confidence in the process category (8.33), followed by people (8.19), while they were least confident in their environment (7.84), which includes ICT infrastructure and government support, among other areas (see appendix for full list of questions).

	Bangladesh	India	Indonesia	Malaysia	Philippines	Singapore	Sri Lanka	Thailand	Average
People	8.23	8.73	8.34	7.28	8.39	7.88	8.21	8.51	8.19
Environment	8.22	8.56	7.89	7.04	7.99	7.11	8.13	7.91	7.84
Processes	8.67	8.91	8.41	7.63	8.79	7.15	8.68	8.54	8.33
Technology	7.27	8.29	8.26	7.24	8.14	7.66	7.87	8.23	7.89
Average	8.05	8.59	8.21	7.28	8.29	7.44	8.19	8.26	8.03

On average, South Asia was more positive overall in its assessments compared with South-east Asia (8.31 compared with 7.90), but there were significant differences between countries. Indian survey takers were the most positive across all four categories, a sentiment also reflected in our research on digital transformation, in which respondents from the country were similarly more confident than other regions on average.³ “Indian family businesses are very confident about the future,” says Kavil Ramachandran of the Thomas Schmidheiny Centre for Family Enterprise at the Indian School of Business. “They are certainly not worried about the environment, which gives them additional confidence [in other areas].”

Chart II. Regional readings: comparing South and South-east Asia (average scores out of ten)



Source: The Economist Intelligence Unit

³ Denis McCauley, *Connecting commerce: Business confidence in the digital environment*, The Economist Intelligence Unit, 2017, <http://connectedfuture.economist.com/>

The state of play: doing well or overconfident?

Executives in the barometer of family business future-readiness appear highly confident, especially in the people and process categories. Notably, about seven in ten survey takers say they are very confident in the digital proficiency of their employees, a high number given global concerns in this area. For example, in a study measuring the extent to which 35 education systems around the world are teaching young people the skills they will most likely need in future, Singapore and Japan were the only Asian economies ranking in the top ten.⁴

The environment category was rated lower in the barometer than people and processes. Nevertheless, confidence in certain areas appears relatively high. ICT infrastructure, for example, is highly regarded by about two-thirds of executives. One possible explanation is that almost all survey takers are located in emerging markets where improvements in ICT infrastructure have been rapid.

Executives also appear relatively confident about emerging technologies such as data analytics, automation and cloud computing, for which readiness was cited as very high by about two-thirds of executives. Technology preparedness will be important as countries (and companies) face potential disruption from areas like AI. In one recent survey, for example, 4,200 people between the ages of 15 and 25 in six Asian countries all agreed that robots would replace humans in a number of professions.⁵

“In the past, businesses in the [region] were able to leverage their large balance sheets to grow,” says Ms Koh. “But in the last decade, with industry disruption and changes in business models, the younger generation recognises that growing with a strong balance sheet is not good enough.” Perhaps as a response, about three-quarters of executives say they will offer new products and services over the next three years.

Replicating success

“Everyone recognises that having large multi-national companies (MNCs) present can be good for the economic development of the local host economies, but MNCs are cost sensitive and can come and go [between countries],” says Ms Koh. “Home-grown SMEs stay.” Their contribution to the economy can vary greatly, however. In India, research conducted by Mr Ramachandran shows that the performance of family businesses has not matched that of non-family businesses. “Our conclusion is that they need to do a lot more to remain competitive,” he says.

This is one reason governments have started to pay more attention to help local SMEs develop. In Singapore, for example, SPRING is an agency under the Ministry of Trade and Industry tasked with promoting growth. Part of the plan is to create clusters of SMEs to build a broader eco-system.⁶

“Everyone recognises that large multi-national companies can be good for the local host economies, but MNCs are cost sensitive and can come and go. SMEs stay.”

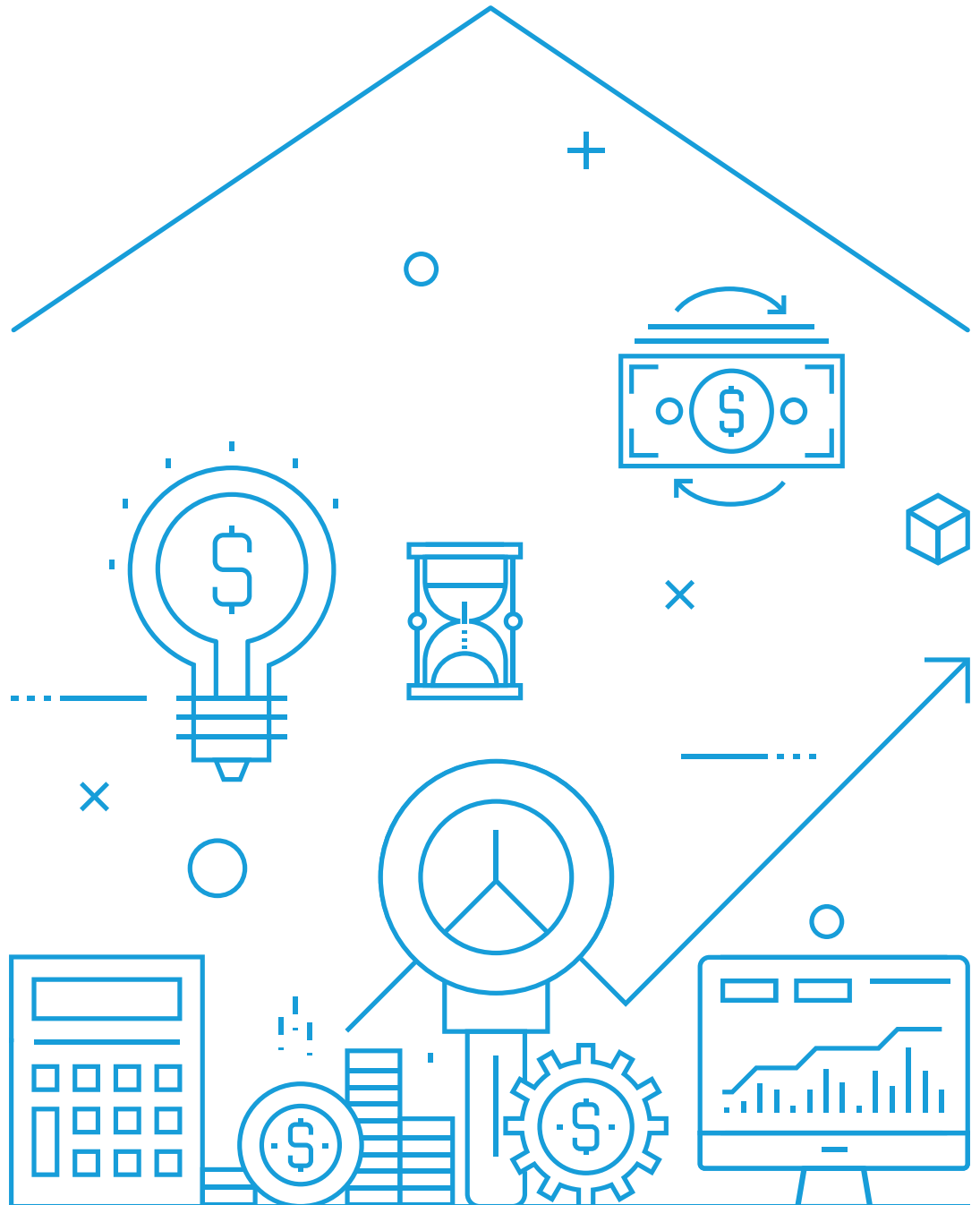
- Annie Koh, Singapore Management University

⁴ Nicholas Walton, *The worldwide educating for the future index: a benchmark for the skills of tomorrow*, The Economist Intelligence Unit, 2017, <http://educatingforthefuture.economist.com/>

⁵ Telenor Group survey: *Asia's millennials assess future careers, digital technology impact and robotic replacement risk*, Telenor Group, 2016, <https://www.telenor.com/telenor-group-survey-asia-millennials-assess-future-careers-digital-technology-impact-and-robotic-replacement-risk/>

⁶ SPRING Singapore, <https://www.spring.gov.sg/Pages/Home.aspx>

Support for SMEs is not new, however. Ms Koh says Singapore looks to Germany in particular as a recipe for success. German SMEs constitute 99% of all companies in the country and 61% of employment.⁶ In 2015 they accounted for 33% of the overall turnover of German companies.⁷

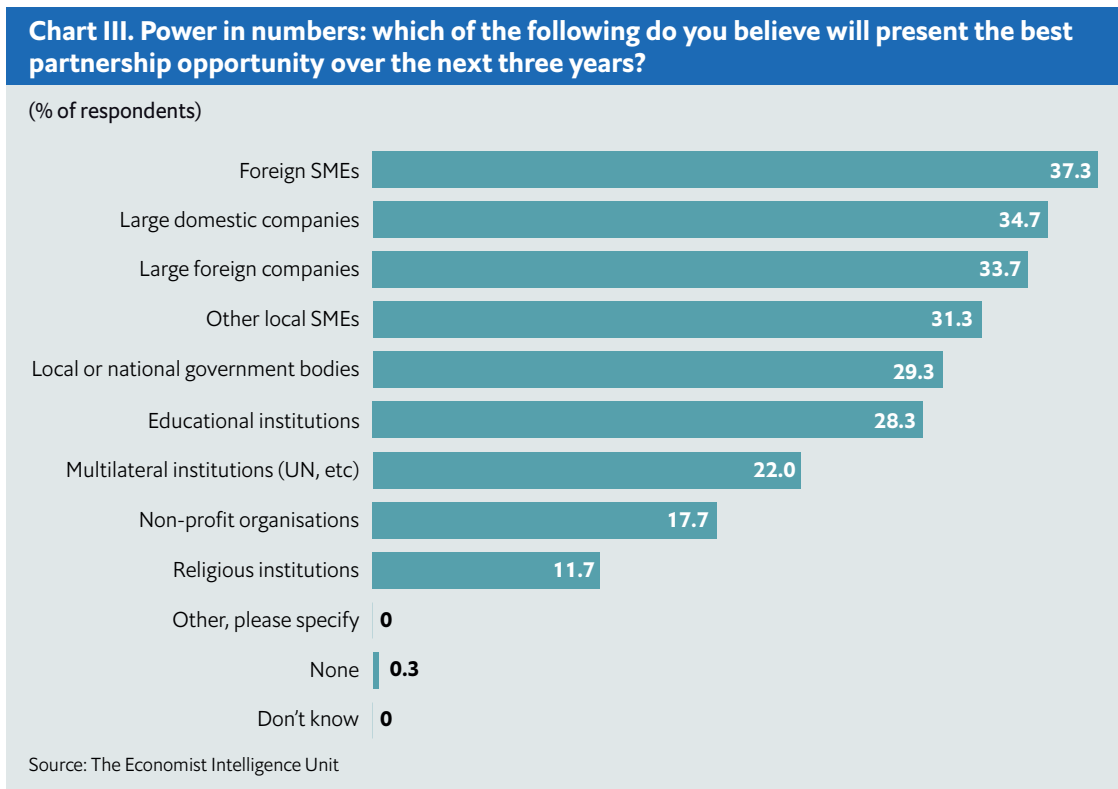


⁶“Structural business statistics 2015”, Federal Statistical Office (Germany), https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/EnterprisesCrafts/SmallMediumSizedEnterprises/Current_.html, accessed March 21st 2018

⁷Ibid

Next steps: tackling future challenges through partnerships

Family businesses in Asia are turning to other companies for partnership opportunities to stimulate growth. Foreign SMEs are the preferred option (37%). “There is a tendency to partner with other family businesses because they also think long term, as opposed to larger institutions that are more short-term oriented,” explains Mr Harland.



Large domestic companies (35%) and large foreign companies (34%) closely follow as the second and third options, presumably because they enable access to the latest know-how and can help expansion into new markets.

“We see family businesses partnering with the big boys, such as P&G,” says Ms Koh, who notes that large firms like P&G can help bring family businesses to other countries and expand their reach.

In-person industry events are the most favourable choice for advice among survey takers, cited by about half, followed by paid external consultants, while friends and family are only regarded as the primary source of advice by about one in four.

Learning lessons

The primary expectations from external partnerships are the development of new products and services, cited by about half of executives. “Every family business understands that to build sustainable firms, it is no longer about competing on cheap pricing, but about creating value,” says Ms Koh.

Enhancing brand exposure is ranked last as a potential benefit from partnerships, perhaps due to already high expectations surrounding customer loyalty. Yet Ms Koh says that younger generations are likely pushing their elders to build brands and gain recognition. “Twenty years ago family businesses wanted to be below the radar,” she says.

Emerging from the shadows, family businesses have started to take pride in their ownership structure. “Look at Johnson & Johnson,” says Mr Harland. “They promote themselves as a family-owned company now.” The survey sample suggests change is under way. In-person industry events are by far the most favourable choice for advice among survey takers, cited by about half. This is followed by paid external consultants (30%), while friends and family are only regarded as the primary source of advice by about one in four.

Conclusion: the way forward

“If family businesses want to grab available opportunities, they must change their governance structure, increase professionalism and clarify their succession planning,” summarises Mr Ramachandran.

“Family businesses cannot last beyond this generation if they do not innovate,” adds Ms Koh. Today, that is often through technology: although the survey shows that family businesses are aware of emerging technology trends, it remains to be seen whether they are actually taking advantage of these given the questions surrounding the need for greater professionalism.

“What we’ll see with the next generation is that they will manage the companies very differently,” predicts Mr King. “Whereas the older generation doesn’t even have organisational charts, the new generation will have more structure and be technology-driven to stay abreast of trends, such as AI and globalisation.”

“Bringing the next generation into the business is a double-edged sword,” says Mr Harland. “Some can master this integration, but some see it as a negative and will look to exit the business.” Leaving is not uncommon. Mr King says about eight in ten of the next generation do not want to join the family business and would rather start their own. Hence the pace of change might supersede the difficulties of succession planning after all.

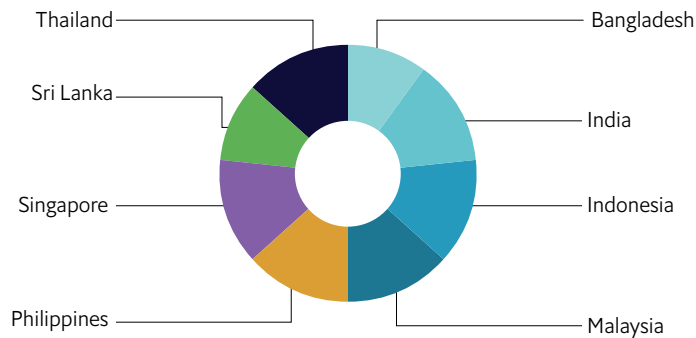
Appendix: survey results

Unless otherwise specified, all answers represent % of total survey respondents.

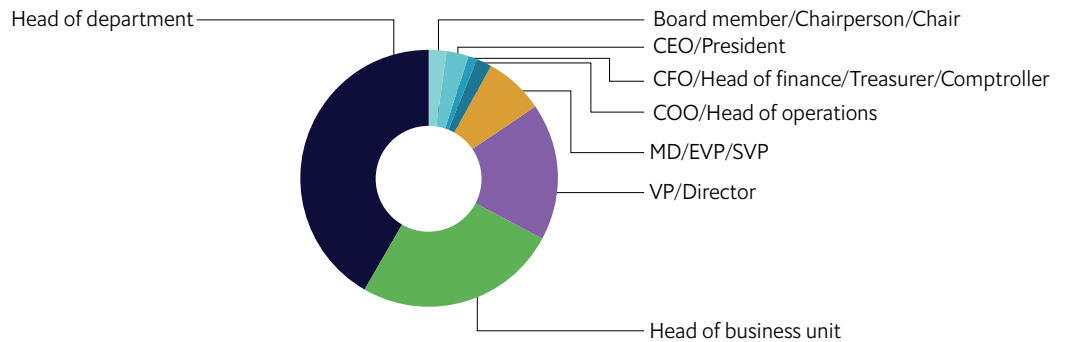
Screening questions: all respondents work at family-owned businesses where family members are actively involved in the running of the business. In addition, all respondents personally play a role in setting the mid- to long-term strategy (at least three years) at their organisation.

Demographic questions

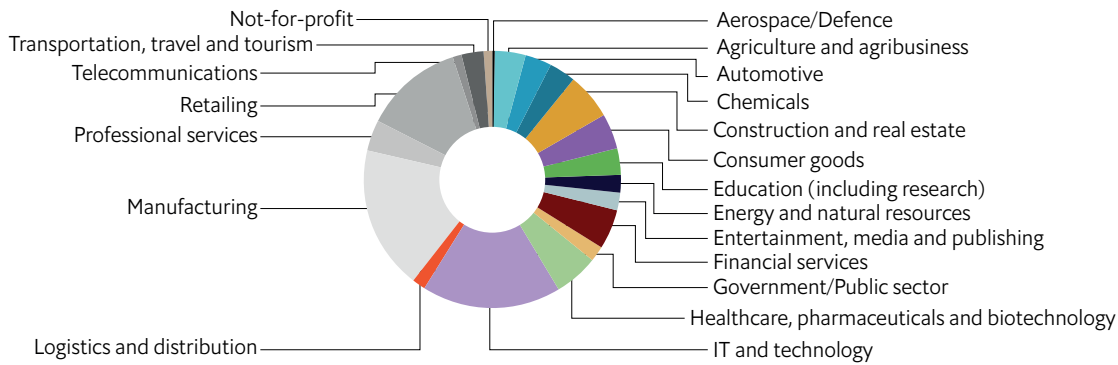
D1. Country



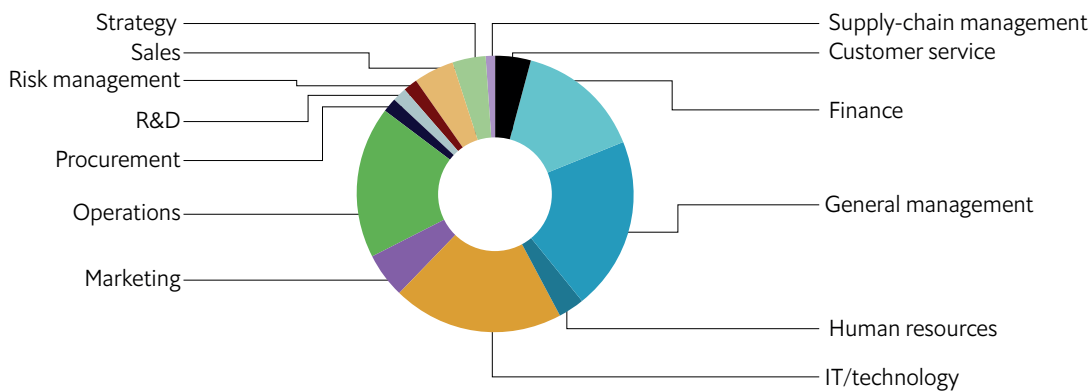
D2. Professional title



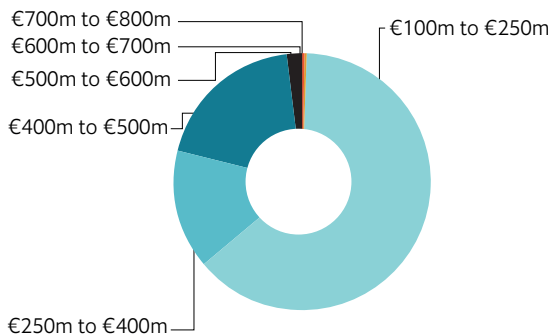
D3. Industry



D4. Functional role

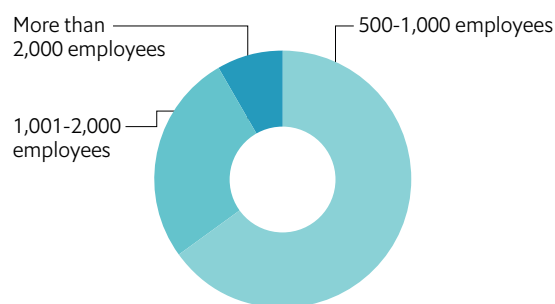


D5a. Annual global revenue



D5b. # of employees

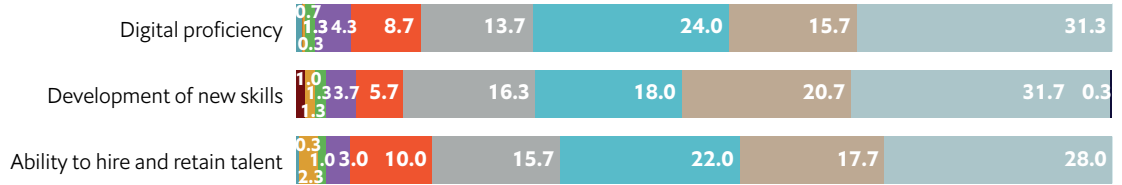
(for respondents in Bangladesh and Sri Lanka)



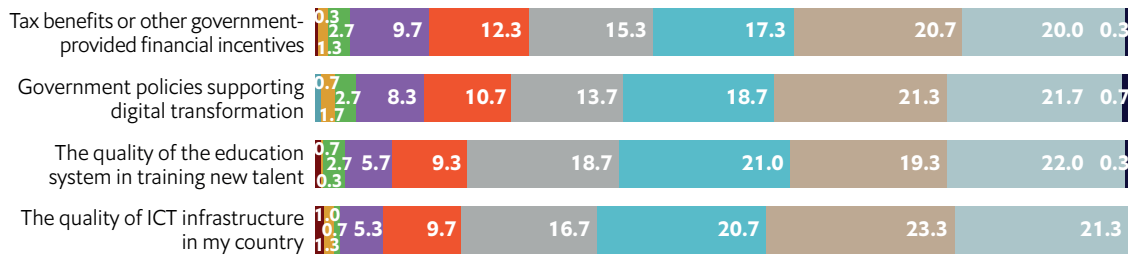
Barometer questions

1 - Not confident/likely/well-prepared at all 2 3 4 5 6 7 8 9 10 - Very confident/likely/well-prepared Don't know

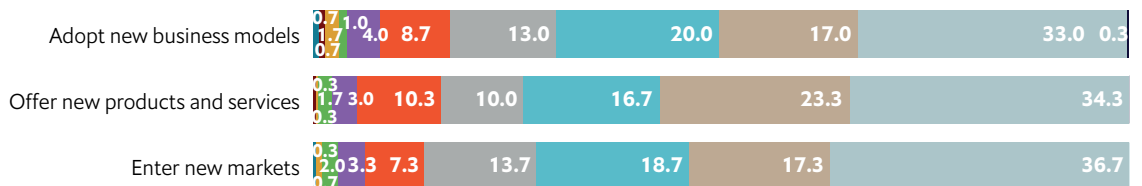
B1. How confident are you in your employees' abilities in the following areas?



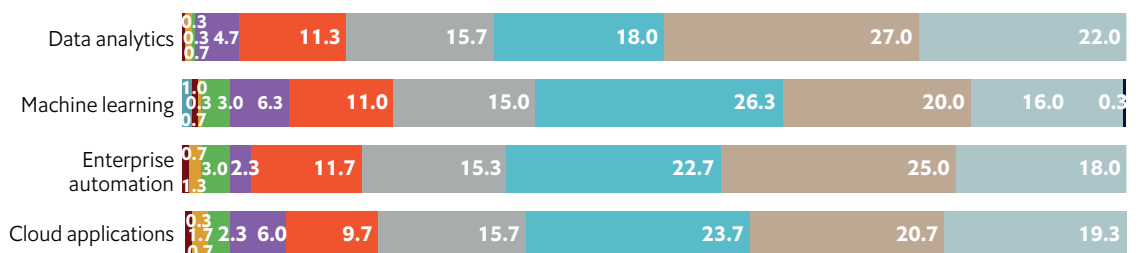
B2. How much confidence do you have in the following factors as a means of support for your organisation?



B3. How likely is it that your company will do the following over the next three years?



B4. To what extent do you believe your company is prepared to utilise the following technologies?



Other survey questions

Q1. How often does top management in your organisation meet formally to discuss broad company strategy?



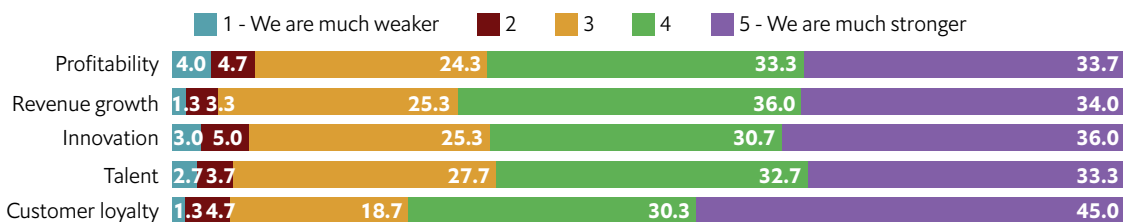
Q2. Does your organisation have a clear and well-defined plan in place for leadership and ownership succession?



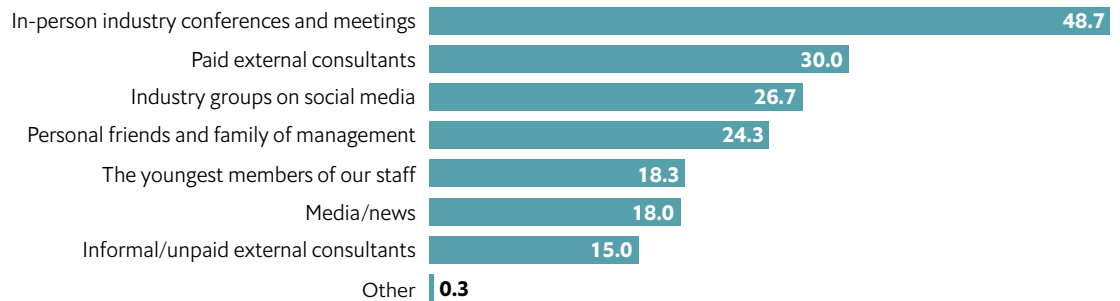
Q3. How much do you believe your organisation will have to change in order to successfully overcome the challenges of the next three years?



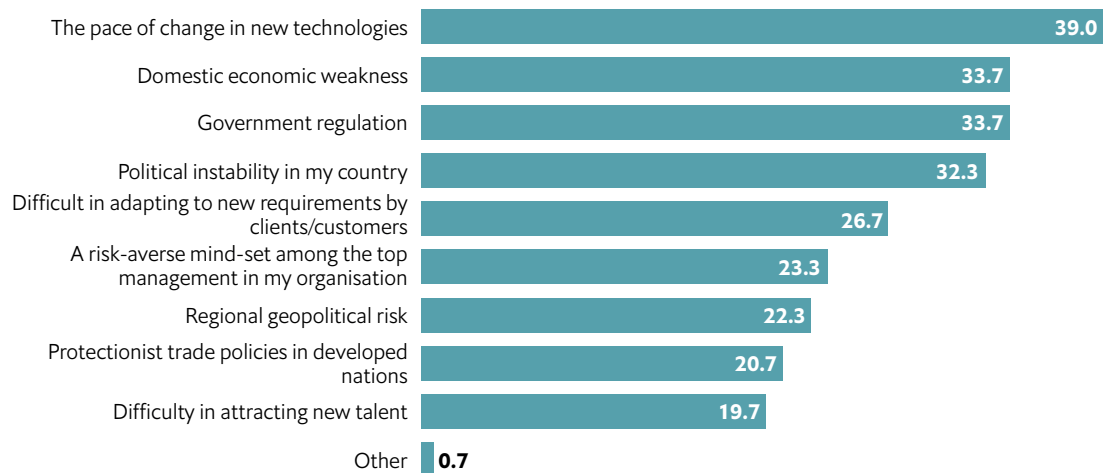
Q4. In your opinion, how does your organisation compare with others in your industry in each of the following areas?



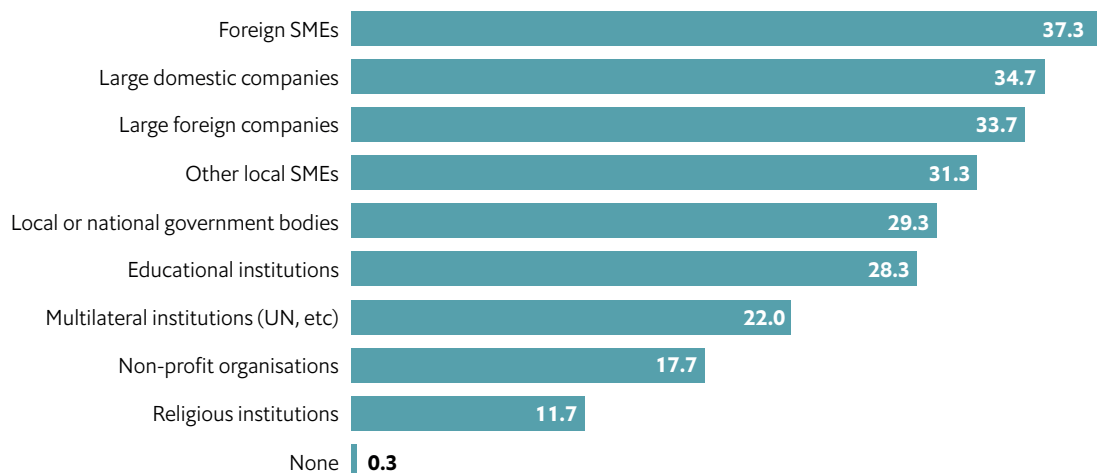
Q5. Which of the following does your organisation engage most to solicit advice on future challenges?



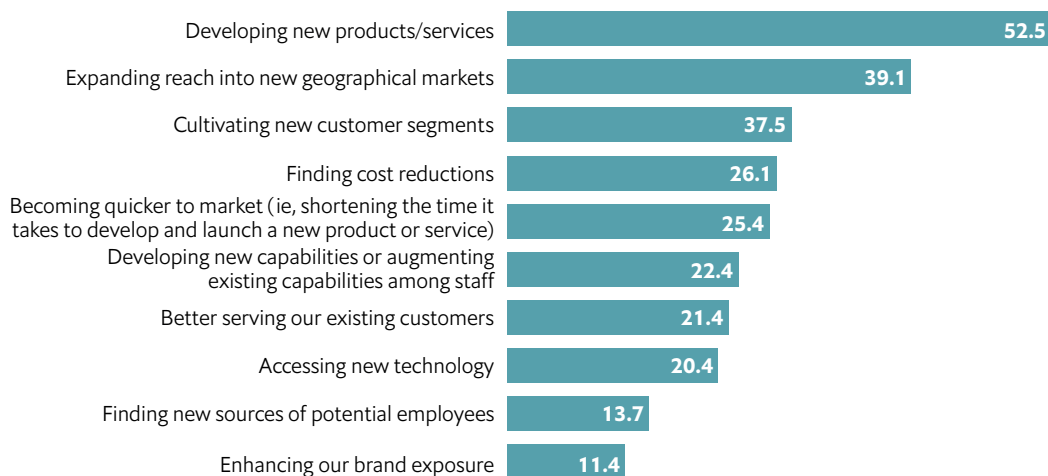
Q6. Which of the following do you believe will present the most significant threat to your organisation's growth over the next three years?



Q7. Which of the following do you believe will present the best partnership opportunity over the next three years?



Q7a. Which of the following do you expect will be the most prominent benefit to your organisation from these partnerships?



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