

Creating a shared future for generations

Cultivating **responsible stewards** with family governance



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Foreword

Long-term implications of global disruptions such as the Covid-19 pandemic and geopolitical tensions continue to evolve and impact policymakers, businesses and families around the world. In times of ambivalence, many families and their businesses are prioritizing family governance to effectively manage these uncertainties for a shared future, and capture opportunities in a timely fashion amidst a rapidly changing macro-economic environment. The continuous growth of global wealth, diversity in country of residence among family members and intergenerational wealth transfers mean that an increasing number of wealthy families will be grappling with the issue of family legacy and unity. These families may need appropriate governance frameworks and tools, such as governing bodies and family offices, corresponding to their size and stage of development in order to preserve family identity and legacy across generations.

Every enterprising family is unique with a different trajectory of their past narratives, present circumstances and future aspirations. Therefore, it is paramount to establish a customized governance system that not only fits families' needs and purposes, but also embraces changes and allows resilience for unpredictable futures. In this paper, we explore how enterprising families in the Asia Pacific region consider their particular circumstances when developing family governance systems, the unprecedented challenges they encounter in recent global disruptions, how they navigate through ever-evolving policies, and the strategies they take for longevity.



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1 The lasting practice of Sunday family brunch

'For more than forty years, my family – about a group of 20 people spanning across three generations – has been going to my grandmother's house every Sunday at noon for Cantonese porridge,' recounts Richie Eu, a fifth-generation shareholder and Managing Director of Eu Yan Sang International ("EYSI"). 'Even when I was a high school student in the United States, I would call Singapore from long distance and my parents would pass the phone around for me to say hello to everyone. Establishing a consistent rhythm of annual family meetings as part of our family gatherings also helps to establish structured and open conversations with each other. I credit the closeness of our family to our weekly Sunday porridges in Singapore.'

Founded in 1879, Eu Yan Sang grew from a small, home-grown medical hall to one of the most recognized traditional Chinese medicine brands in Southeast Asia. Richie's father, Richard YM Eu, a fourth-generation manager and shareholder of the family business, was identified as the main driving force behind Eu Yan Sang's turnaround in the 1990s. Through a management buyout with his cousins, Richard YM Eu consolidated control of the business into one

single entity, which previously had stakes dispersed across over seventy family members. 'My Grandfather's family branch is currently the largest shareholder of the business across the various family groups. After witnessing acrimonious disputes between the third generation, my dad and his fourth-generation cousins did not want to drag the family through another painful episode. Therefore, he is fully committed to maintaining good relationships within the family so that both internal and external stakeholders view the family as a united front,' Richie adds.

Retaining a family practice of structured conversations and regular meetings enhanced the Eu family's resilience during difficult times, including the passing of Dr Richard KM Eu, Richie's grandfather in September 2022. 'When he could still travel, my late grandfather made it a point to have the entire family celebrate his birthday together every April in Japan,' explains Richie, 'he passed away last year, but we hope to carry on this tradition going forward because we believe in the power of staying together – to process, to grieve and to mourn someone who meant so much to us.'

'Our company has more than 140 years of history and as time passes, each succeeding generation moves further away from the company's founder, Eu Kong, my great-great-grandfather. So, we must find novel ways to strengthen our family's closeness as the world changes and a lesser number of family members are actively involved in the business.'

Richie Eu,
Fifth-generation family member and Managing Director of Eu Yan Sang International

The Eu family's story showcases the power of a common purpose in light of key milestone events. The rituals of open communication and consistent engagement within the family nurture a desire to stay together rather than pull apart, and foster within each member a sense of "togetherness" despite geographical distance and a lesser emphasis on the business as a unifying force.

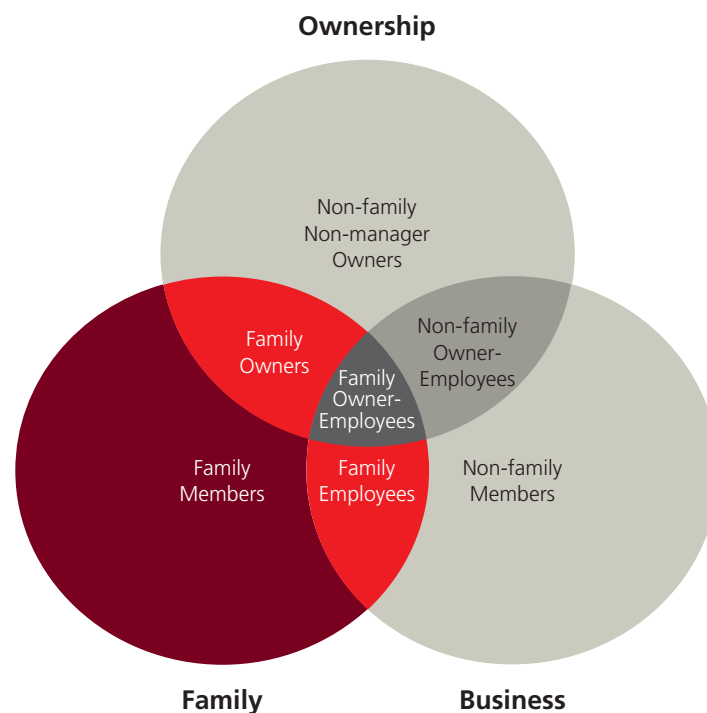
2 Governance as a journey of self-discovery

From natural to formal governance

Entrepreneurial families experience growth in many dimensions over time, from the number of business units and operating locations to the number of extended family members and diversity of residencies. As the family grows, natural advancement of family governance system may not suffice – concerted effort is required to manage and align values and objectives, and to keep family members connected. When extended family members become less interested or involved in their family business, they inevitably tend to be more detached from family heritage; thus, the fabric of the family weakens. From the dimensions of ownership, family and business, different stakeholder groups in the realm of the family businesses start to

emerge as families develop. Here, we note that divergent interests may lead to potential conflicts. As defined by the famous Three-Circle Model of the family business system developed at Harvard Business School by Renato Tagiuri and John Davis in 1978, the three interdependent and overlapping groups, the family, business and ownership, results in seven distinct interest groups, each with its own perspectives, goals and dynamics (Graph 1). The long-term success of the family business system depends on the functionality and mutual support of these seven interest groups. Customized governance systems, including guiding principles, structures, policies, and practices can effectively address the interests and concerns of the overall family and its members by ensuring inter- and intra-group communication, engagement, alignment, and built-in resilience to facilitate collective decision making.

Graph 1: Three circle model of the family business system

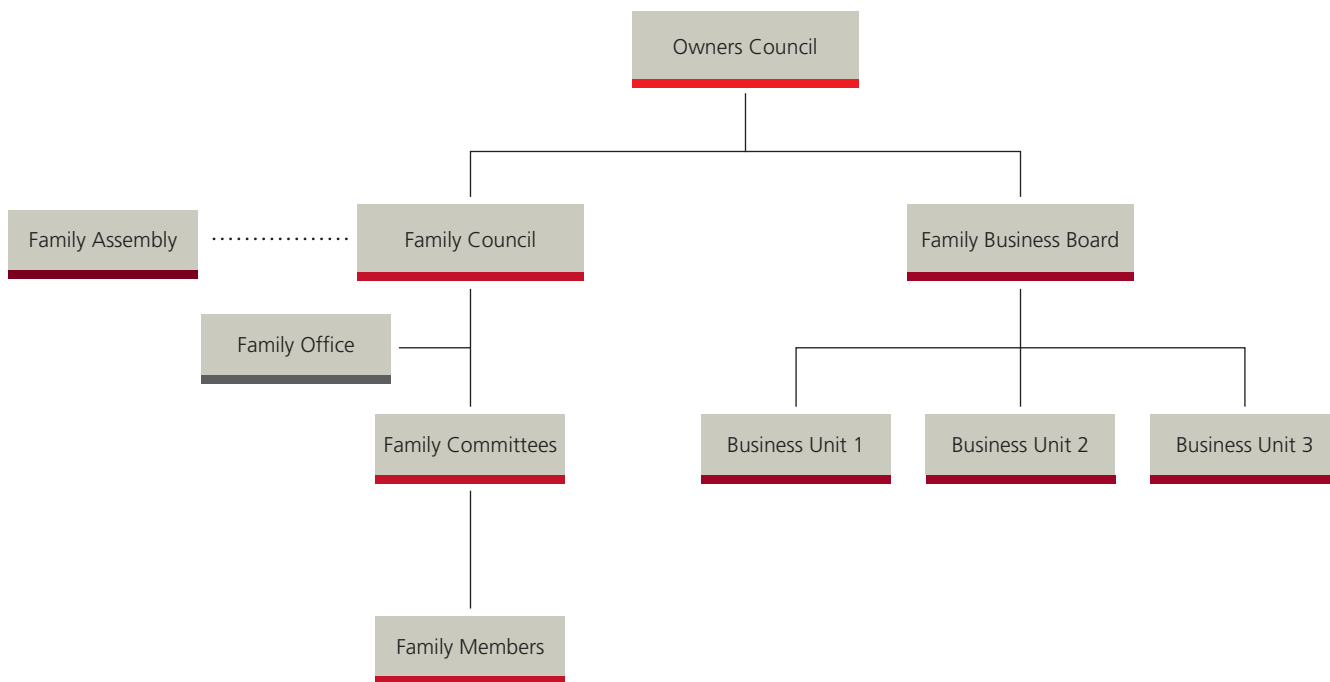


Source: Renato Tagiuri and John Davis, <https://johndavis.com/three-circle-model-family-business-system/>, 1982

In fact, many wealthy families in the Asia Pacific region have acknowledged the role of effective family governance systems in preserving family values and unity. Despite naturally built-in governance arrangements, such as through family gatherings,

other families have established formal communication platforms and adopted various governance tools (Graph 2) to strengthen family cohesion, mitigate potential conflicts and accelerate collective decision making in order to be proactive, rather than reactive, to various changes.

Graph 2: Family business governance structure for illustrative purpose



Source: Deloitte China Research

The Tan family, based in Hong Kong, is the family behind Luen Thai Group, a global leader in apparel and accessories with businesses spanning from China to the Pacific. The family has successfully adapted family governance tools mostly developed in the West to its own family. ‘Most of the wealth in Hong Kong was created after the 1970s, whereby not many reference points were available in building a family governance structure. Envisaging potential challenges families face alongside wealth creation and accumulation, I proactively participated in family business workshops in London and in other global cities to learn about success stories of 100-year-old families, and understood the importance of having proper mechanisms in place to manage the family business and enhance longevity,’ recalls Henry Tan, second-generation member and Deputy Chairman of Luen Thai Group. Thereafter, the Tan family hired external consultants to help set up its Family Council, Family Assembly and Family Committees. The Family Council, chaired by Luen Thai Group’s founder, Dr Tan Siu Lin, provides guidance on major family issues and sets out relevant policies and procedures. The committees are designated with specific functions, each being health and medical, education, and recreation, which deploy family resources to benefit family members. With the third generation actively contributing, the committee set-up empowers them to make balanced decisions by accounting for the circumstances of the

whole family as well as of each family member. With a system in place, stewardship of family resources is carefully and prudently done to ensure both efficiency and fairness.

‘We do not pay for everything, instead we subsidize a certain amount, from education to weddings. As benefits and the relevant approval processes are clearly written and defined, family members know what they would be getting. There’s no hard feelings.’

Henry Tan,
Second-generation family member and Deputy Chairman of Luen Thai Group

‘And we also put in extra efforts to leave fond memory of family gatherings. Taking our family trip of 30 people to Quanzhou, my father’s hometown, as an example, I sent staff to the sites and restaurants beforehand to confirm the details of all arrangements.’, Henry adds.

Engagement principles in the family business is another focal point of governance system for the Tan family. Each second-generation family branch manages a unit of the family businesses to avoid conflicts. Family shareholders receive a fixed percentage of dividends. In addition, the family created a bonus system allowing the relevant manager to obtain additional compensation based on the performance of the business unit he or she oversees. The Family Committees also set the parameters for the third generations to join the business – external work experience and sponsorship from a second-generation member are some common prerequisites.

External events as catalysts for change

However, having a system in place is not only about checking the box, but also the commencement of a governance journey, which is living and should be evolving based on reassessment of the family's future and rediscovery of shared purposes. External disruptions and turbulences, from Covid-19 pandemic to geopolitical tensions in recent years, may actually offer opportunities to catalyse reflections and transformation in families, and drive more interaction among family members to adapt to a new normal.

Richie shares his observations on his family's response to the pandemic. 'When Covid-19 hit, a lot of us who lived abroad decided to move back to Singapore. The pandemic forced us all to reassess where we felt the safest, and we felt the safest at home. Surrounding ourselves with warmth and familiarity, especially in the case of my then-96-year-old grandfather, has helped us get through a very difficult period. For example, even though travel restrictions were in place at the height of the pandemic and my siblings were spread out across the globe, we organized a lot of virtual family "meals" and calls. The pandemic allowed us to reassess what is most important to us, in terms of where you want to live and who you want to live with.'

As families adjust and cope with novel situations, on top of the accelerated adoption of technologies, learning as a family serves as another key touchpoint for family development. A collective learning process allows families to redefine and realign their own guiding principles and shared values over time, thereby keeping the family governance system alive. Among others, family forums are often the primary platform for family members to communicate and learn from other entrepreneurial families.

Richard YM Eu is a firm believer in life-long learning, encouraging his four children to attend external forums and to come back and share what they had learned. Over the years, the Eu family has also organized a number of educational tours about the family's history and beginnings. 'My father is very supportive of us attending a family-focused forum anywhere in the world and learn about how other families approach family issues. His belief is that every family is unique, and therefore will have a different approach to age-old questions. His view is that the more data points we gather, the more conversations we can have around what works best for us,' notes Richie.

Challenges faced by families in mainland china

Compared to enterprising families in Singapore and Hong Kong, their peers in Mainland China are in relatively early stages of succession cycle and are adapting their unique conditions to shape their family governance journeys. For most of the privately-owned enterprises in China, transformation and reinvention top their agenda as China moves swiftly beyond traditional sectors to advanced industries, technologies and higher-margin consumer goods. Decision-making for a family business is often uniquely complicated by disruptions, intensifying competition, business transformation as well as evolving dynamics among family members. What's more, the founding generations are in charge and are in the process of creating their own playbooks. Decision-making for family and business is therefore made by the same set of family members and is frequently intertwined, hence some families are grappling with the dilemma between interests of the family and interests of the business as both evolve.



While family and business rules are still being defined and refined, tensions arising from generational transition become even more conspicuous as a result of the general lukewarm interests among the next generation to take over the reins. Some of them study abroad and do not spend much time with their families growing up. 'The divergence in perspectives and generational conflicts can be explained by rapidly changing upbringings and the social environment of each generation.', says Andrew Lo, UBS Head of Family Advisory and Family Office Solutions Greater China.

'The rising generations, especially millennials, grew up in the digital era and in open societies. They are more open-minded to innovation, whereas the elder generation is more concerned about keeping wealth within the family.'

Andrew Lo,
UBS Head of Family Advisory & Family Office
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A successful entrepreneur from Mainland China, Mr. Mai, started out in the logistics segment in Shenzhen, and after decades of hard work, took the company to the next level by leading the industry. His son, Michael Mai, was sent to study in Australia at the age of 15 and stayed on to start a business himself in real estate, and later expanded into alternative asset management. Michael comments, 'because my father and I have lived apart this many years, our differences in world views can lead to a lot of arguments, especially in recent years with macro uncertainties such as the pandemic and geopolitics. We've now learned to concentrate on the holistic view and long-term strategy, instead of getting into guessing games.'



3 Cultivating responsible stewards in the rising generation

Next gen development at the core of governance design

Enterprising families in various stages of succession cycle have different focuses in designing and implementing family governance. Multi-generational families in Singapore and Hong Kong tend to focus more on investing in cohesion with the wider family. As family heritage goes back a couple of generations, they generally have a higher level of awareness to plan for sustainable family legacy. While young enterprising families in Mainland China have started giving more considerations to the topic of succession in recent years, considering the first-generation entrepreneurs are still hands-on in business, they normally do not have a governance system in place.

Regardless, many families face the common challenge of engaging and developing next generation in the long run.

‘Succession is at the core of governance system design, and this applies even more so to younger families. Generational transition is always the hardest for the first time, as in from the founder to the second generation, because families lack experience.’

Jeremy Cheng,
Researcher with the Center of Family Business at the Chinese University of Hong Kong

How can governance arrangements cultivate and carry forward entrepreneurial spirit within families? How can the family motivate future generations to contribute to the business when fewer family members are interested in joining the business? How will the family create opportunities for those who choose a career outside of the family business to stay involved?

‘Enterprising families in China should re-consider the Asian tradition of having the next generation carry the torch as the preferred succession option. Cultivating future generations as professional managers requires talent and extensive work experience in the family business, hence it is more feasible for the next generation to be groomed as the majority shareholder and stewards while having trusted non-family professional managers run the business,’ argues Professor Chen Ling, Director of Institute for Entrepreneurs, School of Management, Zhejiang University.

Younger generations can often act as the driving force of innovation. They help incorporate new technologies into family businesses in the more mature industries. Luen Thai Group now has a diversified global portfolio covering several business segments, spanning from apparel, accessories, fishery, real estate, to investments. ‘When you’re in the retail business, you cannot be a Monday to Friday businessman. You need to be on the ground during weekends. For example, my two sons volunteered to relocate to Shanghai and they have now lived there for 7 to 10 years,’ Henry Tan remarks. The two third-generation Tans work with their uncle on expanding the group’s presence in the Chinese market. ‘The

world has changed a lot. Technology is penetrating all industries, even in traditional industries such as textiles, from new fabrics, new branding to new methods of distribution.’

Family offices provide platforms of involvement for next gen

Meanwhile, across the Asia Pacific region, enterprising families are seeing more of the next generation embarking on a career in investing, sometimes in industries outside of their core business.

‘Enterprising families in Southeast Asia tend to adopt the so-called banyan tree model, whereby the family business develops into a diversified portfolio of multiple business units based on the various interests and talents of the next generation. Meanwhile, we have also seen this banyan tree model played out in the form of family investments.’

Professor Chen Ling,
Director of Institute for Entrepreneurs, School of Management, Zhejiang University

The goal of establishing investment platforms serves not only to grow family



wealth, but also to help forge new development paths for the next generations themselves. Participating in investment decision making for the family bestows trust and tolerance, while motivating them to work towards stewardship as they are likely to receive direct financial benefits based on their performance with the family investments.

'Entrepreneurship is something that is hard to replicate as it requires the right combination of talent, disposition and experience. We don't apply a single set of rules when it comes to developing future generations. We encourage them to find their own paths based on their interests and potential,' notes Tao Zhao, Chairman of Buchang Pharmaceuticals. Mr. Zhao founded the company together with his father in 1990s, and over the years, his siblings joined the family business and took up various management roles. Nowadays, the next generation (the family's third generation) members have either joined the business or worked in the family office.

'Family investments and wealth transfers are critical means of keeping our family legacy. Wealth is easier to retain and transition compared to business.'

Tao Zhao,
Chairman of Buchang
Pharmaceuticals

Setting up a family office to oversee family investments is often an important step towards establishing a governance system for enterprising families in Mainland China. According to the 2022 Chinese Wealth Management and Family Office Report by UBS, Shanghai Advanced Institute for Financial Research and Wealth Plus, 60 single and multi-family offices in China were surveyed and 84% of respondents deployed their family offices as an investment platform of family assets. Facilitation for succession planning came in second, representing 34% of respondents.¹ Other functions of family offices included administration and internal advisory.

'In most Asian cultures, families are not used to sharing internal conversations with outside professionals,' says Michael Mai. 'My family was exposed to the concept of the family business framework very early on but it took us about 10 years to officially establish a family office and to set up separate boards for business and family.' Mai Group, headquartered in Melbourne, adopts a Westernized style of running businesses whereby Michael focuses on building a professional management team. His advice to Mainland Chinese families is to start small and take one step at a time. 'As we have just started this journey, we're still figuring out our rules. Finding out what works and what does not work in the long run takes time.'

Empowering the next gen for a shared future

By providing the next generation of family members diverse options to participate, whether through working in the business, or managing family affairs or wealth, family governance systems essentially create a variety of touch points where family members can get involved.

Among others, junior boards and next generation committees or sub-committees have been gaining popularity as the stepping-stones for the rising generation to develop. The tailored space provides younger generations with opportunities to take ownership and test out their ideas. It may start from something small, from planning a family retreat, attending and representing the family at forums, to designing family members' education guidelines and taking part in family investments. 'Including extended family members, our family tree has grown to about 200 people globally. Although we still use the company's birthday as an anchor to hold large family gatherings, we do not force people to work in the business because ultimately people need to find their own life goals'. After his granddad's recent passing, Richie realized that he meant so much to the extended family that the 4th generation decided to organize a family get-together in the United States. 'Nowadays, our discussions center around responsible stewardship, corporate and family governance and how best to utilize family resources for our businesses and the greater good,' remarks Richie.

¹ UBS, Shanghai Advanced Institute for Financial Research and Wealth Plus, "2022 Chinese Wealth Management and Family Office Report"

4 Conclusion



In the journey of discovering and refining the appropriate governance frameworks, enterprising families are encouraged to consider their unique contexts. For instance, families in developed Asian economies such as Hong Kong and Singapore generally focus more on managing the multi-generational complexities with multiple business units at multiple locations, whereas families in Mainland China face different challenges arising from generational wealth transfer, probably for the first time, with inadequate open communication and a lack of systematic succession plan in the disruptive era.

To adapt to the new normal of constant disruptions and rapid turnarounds, enterprising families may consider working with professional family advisors to help re-examine existing strategies, reassess families' circumstances, rediscover their collective vision, rethink agility to carry forward entrepreneurship and ensure alignment among family members.

As more and more enterprising families embark on a governance journey, we summarize the following factors that have been critical to their success:

1. Customize a formal family governance system taking into account families' individual contexts, for families to constantly redefine family values and rediscover common purpose in light of the evolving external and internal circumstances, and for the rising generation to develop and test out their ideas

2. Embrace external events as catalysts to promote reflections and transformations within families, and drive more communication and interactions among family members to adapt to a new normal
3. Create a variety of touchpoints for the next generations to participate, as responsible stewards for families' shared assets, regardless of whether they choose to join family business, manage family investments or pursue their own aspirations

Family governance practices and tools enable families to explore new ways of interactions among themselves and with their external environment, sustain and renew family legacies, and push the frontiers of a shared identity that encompass younger generations, thereby creating a shared future for generations to come.



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