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Family-Owned Businesses In Asia: Their Political-Economic Power

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Abstract: Family Owned Business identify, understand and address the future of the Business in Asia from the local perspective to global perspective. wever, to ensure the safety of the consumers they have to regulate policies to compliments the business owner as well as the consumer. Government policies assure the both side are protected. The Roots of the business that we see at the Shopping Mall, Citi Centers, Gaisano, Groceries and sari-sari store originates or came from families having the same vision to provide employment and sustained the government improving the lives of the consumer. The government dole out knowledge and financial support to the Business Owner to make them more competitive. All of these are built in incentives for them.

Introduction

"Over 95 percent of businesses in the Philippines are family-owned and run . . ." This assertion supports the well-documented fact that in East Asia, perhaps all over the world, the role of family-owned business as the dominant force running the engine of international commerce cannot be overemphasized. The article by Flores drives the significant point that, despite this preponderance of business-owned firms "only a small percentage has endured and survived beyond three generations throughout history." He asks the question "Why?" This paper, therefore, identifies the attributes of family-owned businesses in Asia and determines the causes of their persistence and sustainability as well as the adjustments they are making in light of the changes in the international business environment.

Literature Background

Providing a background to this reaction paper, a review of some articles in the Internet revealed the down- and up-sides of family-owned businesses. A study on Taiwanese family-controlled firms was conducted by Filatotchev, Lien and Piesse. Using a multi-industry data set of 228 firms listed on the Taiwan Stock Exchange (TSE) the researchers analysed the effects of ownership structure and board characteristics on performance in large, publicly traded firms that are controlled by founding families. "After taking account of possible endogeneity problems, we do not find that family control is associated with performance measured in terms of accounting ratios, sales per issued capital, earnings per share and market-to-book value. However, share ownership by institutional investors, and foreign financial institutions in particular, is associated with better performance." They further implied that the results indicate that "board independence from founding family and board members' financial interests have a positive impact on performance." Thus, when there are other investors in the firm aside from the family, when the board members are not dependent on the family for decisions, and the financial needs of the members of the board are satisfied, the family-owned business could still perform well. A study was conducted by Trimarchi on Hongkong family business. In this paper, factors that reflect the nature and underpinnings of Hong Kong Chinese family businesses (CFBs) are identified. It was found that "CFBs tend to operate within transnational Chinese business networks (CBNs)." These networks, which are formed by relatives and close friends, strong connections are formed. "Connections within these networks develop through personal relationships based on family, clans or extended family, and with third parties introduced through their personal relationships networks." Among the parties in the networks the interactions tend to be managed through the use of "social controls, which include trust, reciprocity and respect for mutual obligations." What results therefrom is a "molecular form of coordination where firms are able to respond rapidly to changes in international market forces." Thus, the sustainability of CBNs in the competitive global market supports the survival of family-owned businesses in Hongkong. As observed in Hong Kong, firms owned by businessmen from the West, such as Europe and North America "tend to find it difficult to interact within such socially constructed Chinese business markets but the businessmen of Hong Kong Chinese, however, are experienced in dealing with firms from the West and, therefore, provide leeway for the Westerners to be able to deal with them. Particularly "the Hong Kong Chinese have developed an appreciation for Westerners who display management skills, economic trust, and become involved in inter-firm adaptations." "Adopting to New Age through Management Succession in Hongkong Family Business," was a study conducted by Chung and Yuen. The study focused on an area which tends to be overlooked in the study of small and medium sized enterprise: "the issue of continuity from one generation to next generation in family owned businesses." The researchers surveyed twenty-four second-generation family businessmen in Hong Kong through a questionnaire describing the difficulties encountered in managing family businesses. Two major difficulties were highlighted in the findings: (1) the first- generation owners tend to dislike change, claiming change as being disruptive; and (2) most of the second-generation owners have not gone through the hardships or problems to establish the company. The researchers revealed that the study's findings implied the necessity for the second-generation owners to acquire the necessary managerial skills to run the family-owned business. The suggested framework also facilitates the acquisition of such managerial skills by first-generation and second-generation owners so that "they can share a new mental model to run the family business." The second-generation owners "must go through many action learning loops to capture the skills crucial for successful management succession." Carney and Gedajlovic studied the development of East Asian Chinese Family Business Groups. Through a case study of Chinese Family Business Groups (FBGs) in East Asia, the researchers examined the relationship between the strategic behavior

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exhibited by an organizational form and its administrative heritage. They traced the origins of the strategic behavior which scholars commonly attribute to FBGs to the environmental conditions prevailing during their emergence in the turbulent post-Colonial era of East Asia. The authors explained how fundamental changes brought about by shifts in the post-Cold war environment of East Asia have confronted FBGs with new opportunities and organizing imperatives which their administrative heritages have left them ill-equipped to deal with. In concluding, they explained "how the lack of fit between a dominant organizational form and contemporaneous environmental conditions may have significant implications for the organizations themselves and the economies whose landscapes they dominate." Meanwhile, in Korea, "chaebols" or conglomerates are usually family-owned. A study was conducted by Yong-Joo Lee on the management model of this business type. Korean family business groups, known as chaebol, have been identified as the engine of South Korea's unprecedented double-digit growth. The chaebols are composed of numerous large, multi-divisional, hierarchical, vertically integrated, and legally independent firms. These business groups were said to be strongly supported by the Korean government rather than by market mechanism. Korea's golden age came to end as the chaebols began to collapse due the Asian currency crisis. Since then, the chaebols have been under heavy pressure to reform their family-based governance structure, family control, and corporate rule. The paper identified the changes in the management structures of the Korean chaebol and the underlying forces before and after the crisis taking a holistic approach which incorporates the market, culture, institutions, and state.

Analysis

The bottom line of Flores' article stresses the point of sustainability of a family-owned business beyond the first generation of founder-owners. The questions raised by a panel of experts in the report of Flores stressed the issue of the family-owned business' viability up to the third generation. Other issues focused on the need for balancing the "strategic business considerations with the essential emotional concerns of a family-owned enterprise." Amit and Villalonga of Harvard University have a direct answer to such issues. They suggest that "family ownership of corporations performs better than non-family firms when the founder serves as the CEO of a family firm or as its chairman with a hired CEO. When a descendant serves as the CEO of a family-run company – even if the founder serves as chairman – the firm's market value declines." The authors explain that family firms seem to outperform their non-family counterparts for two reasons. Many non-family companies suffer from the standard conflict between management and shareholders over such issues as returns, management pay and governance. "In a family-run company, the manager and owner are the same so the conflict doesn't exist," says Amit. The real reason family companies seem to work is their link to founders. "Founders instill commitment into the entire employee base. The lesson Amit and Villalonga want to impart is that family-run companies need to have the founders involved to succeed. "Founders may be inspiring leaders, great visionaries, or exceptionally talented scientists. But they may not – and need not be – good managers as well." Schuman, writing for TIME, asserts that Daniel Tsai, co-CEO of Fubon Financial Holding Corp. has said, "We can't always have things the way we want them anymore. We are really coming under scrutiny from all sides." He echoes Tsai by reporting "That's increasingly standard for Asia's corporate titans, who now find their actions and motives routinely questioned and maligned." "The trend for corporate governance is the trend of globalizations," says Tsai, "and our practices have to be modeled on what is generally accepted internationally." Following up on the article above, Schuman also reports on the family-business owned by tycoon Li Ka-shing in Hongkong. Such pressure of modern corporate governance has make Li to rely upon seasoned non-family professionals to run his complex empire. Nonetheless, watchers expect that "Li will p[ass his scepter to his oldest son, Victor," a choice which is in keeping with Chinese tradition. Nonetheless Schuman warns by quoting a Chinese proverb, "Wealth will pass beyond three generations." "Genes don't always carry the entrepreneurial DNA of the empires founder to his sons and grandsons, who inevitably dissipate the ancestral fortune," Schuman paraphrases. Compounding the issue of succession is the possibility of sibling rivalry. Schuman illustrates this by using the case of the Moris of Japan, wherein Taikichiro Mori founded the Mori Building, one of the Japan's leading real estate development family-owned businesses. Upon the founder's death in 1993 the business fell into the hands of the two brothers, Minoru and Akira. The two harbored conflicting strategic visions and later parted ways. Akira now owns Mori Trust. But both men agree that "the dynamics of operating a family business are changing. Investors today demand a level of financial and organizational sophistication that goes far beyond the amateurish, seat-of-the-pants management style characteristics of so many family-run organizations," Schuman shares. Henry Sy of the Philippines runs SM group "almost as if it were a family-owned corner green grocery," Schuman intimates. Sy's communal approach has helped him build the Philippines equivalent of Wal-Mart. But no matter how successful it has proved to be, Sy's children realize that this all-in-the-family management style is becoming outdated. Like so many of Asia's big business clans, "a generational shift and the stresses of running an increasingly complex company are forcing the insular Sy's to open up more and more to outsiders. Tessis Sy, the heir apparent, admits that the business has become too large for just a few people to manage." Her brother Hans agrees, "Our family has been very hands-on. But now we've had to delegate more work, more responsibility." Tessie envisions a different role for the family in the near future. She envisions that the will provide oversight "while professional managers handle day-to-day operations. Going back to Flores' article, the experts content that family firms should look for strategies for their businesses to last beyond 100 years. Such strategies focused on keeping the family businesses intact although the challenge of clan's disintegration predominate. This paper cited cases of family owned businesses in Asia and comes to the finding that the pressure posed by globalization and the new ethics of corporate governance will force the owners of family businesses to lessen the traditional autocratic hold on such ventures. Ownership will be significantly delineated from

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management, otherwise, the firms will run head-to-head with the demand of stakeholders.

Conclusion

The majority of Asia's large companies are still family-owned. For decades boardroom positions and top jobs have been passed down from fathers to sons and daughters, not to professional managers outside the clan. For the past several years, they have increasingly come under fire for inefficient, out model, and repotistive practices. "Today, free trade, looser control of capital flows, the information explosion and global competition are making it harder for family businesses to carry on like secret societies. The rules f the game have changed. Family owners of business desire to prolong their hold on their companies but they realize that more than just preserving peace and harmony of the clans there is a need to consider the pressing demands of modern corporate governance. They will have to open up or they will likely implode.

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