



ACGA 22nd Annual Conference

Asian Business Dialogue on Corporate Governance 2023

"The future of governance: Asia's fork in the road"

1-2 November 2023 – The St. Regis Mumbai, India

Family governance

What's new in the family governance space in Asia? Should investors expect second- and third-generation family members to deliver better governance? Do family companies renew their boards frequently enough? Is Asian family governance becoming more complicated as the number of shareholders increases with each generation? Are family boards prepared for climate change and other sustainability challenges?



Yuelin T Yang

Chief Stewardship and
Well-being Governance Officer
IMC PAA



3rd Time (is the charm) to speak on family businesses at ACGA – Taiwan (2010), KL (2015)

What is new (has changed)?

Corporate Governance Dynamics in Greater China and.....



Organiser :

November 3, 2010 (full day)
November 4, 2010 (morning workshops)

Grand Formosa Regent (A Four Seasons Hotel)
41 Chung Shan North Road,
Section 2, Taipei 104

Asian Corporate Governance Association

Track 2 (Company Issues):

VIP Rooms 5 & 6, Grand Formosa Regent, 4F

Evolving Board Best Practices in Asia

How are boards evolving in Asia, especially among family companies? What is the difference between “family governance” and “family business governance” and why is it so important? Do independent directors, audit committees and supervisors make a difference (and should they be mandatory for all listed companies in Taiwan)? This workshop will draw upon recent examples of governance challenges and crises in family firms in Asia and elsewhere, and will also consider how board practices in Taiwan compare to other developed and emerging markets.

Moderator:

Mr. Douglas Henck, Vice Chairman, ACGA

Speakers:

Mr. Yuelin Yang, Managing Director (Strategic Projects) and General Counsel,
IMC Shipping, Singapore

Mr. Charles Lee Sang Hyok, Advocacy Manager, ACGA, Hong Kong

..... Asian Business Dialogue on Corporate Governance

Asian Business Dialogue on Corporate Governance 2015

CG Rising in Southeast Asia:
Building Bridges between Stakeholders

November 3-4, 2015
Grand Hyatt, Kuala Lumpur
12 Jalan Pinang, 50450 Kuala Lumpur, Malaysia

2. Asian Family Firms: A Superior Model of Governance?

A point of view has emerged in recent years, backed by some evidence, that family firms around the world offer investors a superior investment opportunity. Does this hold true in Asia as well? What does it say about the governance of such firms? This panel will examine how governance is evolving in Asian family businesses, looking at key topics such as concentrated ownership, the involvement of private equity funds in the capital structure and board, succession planning, and how well family firms align their interests with minority shareholders.

Moderator

Mr. Yuelin Yang, Managing Director, Asset Management, IMC Industrial, Singapore;
Council Member, ACGA

Speakers

Mr. Michael Octoman, Partner, Navis Capital Partners, Kuala Lumpur

Mr. Bernard Fung, Director and Head of Family Office Services and Philanthropy Advisory,
Asia Pacific, Credit Suisse, Singapore

Overview - Family Governance: From Patriarchal to Participatory

1 Family Governance is Pre-Condition for Family Business Governance

- Neglect the business (Bancroft Family – Dow Jones)
- Pamper the business (Sulzberger – NY Times)
- Interfere with the business
- Expropriate the business (Satyam)
- Family politics seeps into board room (Kwoks, L'oreal, Estee Lauder)
- Create uncertainty for the business (Sir Run Run Shaw, Tata)
- Too conservative or insufficient capital for the business (Louis Dreyfus)

Possible outcomes for poor family governance

2 Ideal State of Good Family Governance + Good Family Business Governance

- Committed Family = Business' Competitive Advantage
- Family and Business Governance: Separate, Inter-related, Different Cycles and **IN PARALLEL**

3 Family Governance = “Soft” (Communication) + “Hard” (Structures, Processes, Documentation)

- “Soft” is *actually* “hard,” while “hard” is easy
- More family = less consensus and attachment, more fragmented ownership
- Need formal structures and processes for decision making, conflict resolution, succession etc.

4 Pros and Cons of Family Business Governance – how can “outsiders” play a role?.

1 What about family businesses makes them an attractive investment? – NEED ENLIGHTENED FAMILY (OWNER)

- They are under optimized, e.g., in terms of financial leverage, growth strategy, etc.
- There is an identifiable and concentrated shareholder to engage
- If next generation wants to exit (cash out)
- Room to improve their governance
- Long term view enables investing in long term value creation

2 Indicators of a family business being a good investment

- Having outsiders involved, e.g., independent directors
- The founder has stepped aside or clear plans to do so
- Clear family governance, including ownership succession plan, in place
- Next generation interested and engaged to be a responsible shareholder
- Clear management succession plan in place, whether next generation or outside professional management

3 What are the main warning indicators when investing in family businesses?

- Too many family members involved in the business
- Potential conflict between family members active in the business vs those inactive (i.e., just shareholders)
- Control % is disproportionately larger than shareholding (cashflow rights %)
- Insufficient mechanisms to address related party transactions

What is new? – Generational change + external (VUCA) = pressure on family & biz

New (or not) as to some of the P's:

- 1 **Psychology, Prejudices & Politics** – more apparent as the next generation takes over
- 2 **Permeable Partition** – needs more work to demarcate family & business
- 3 **Preferential** treatment of family – still
- 4 **Prepare** next generation – overseas education, but...?
- 5 **Privileged** next generation – interested? able?
- 6 **Professionalize** – pace per expectation
- 7 **Paternalistic** – culture after patriarch?
- 8 **Perspective** – slow to open to outsiders

and, I can summarize Family Businesses in 5 pictures and 20 P's



Peculiarity of Concentrated ownership

by **Persons** with family **Psychology, Prejudices** and **Politics** – need:

(a) governance by **Permeable Partition** between family and the business + mitigate **Pyramid** structures and **Preferential** treatment of family,

(b) succession by **Preparing Privileged** next generation and

Professionalize within possible **Paternalistic** culture

(c) external **Perspective** of consigliere directors & **Partners** (investors, corporates)

(d) harness **Power** of **Passion, Purpose** & **Pride** of family as long-term **Protectors** of the business

Appendix

Family Governance = “Soft” (Communication) + “Hard” (Structures, Processes, Documentation)

1 Goal Setting

- Individual vs Unity
- Shared Values and Vision
- Business Goals
- Roles & Responsibilities
- Education of Next Generation
- Philanthropy

2 Generalize (Policies and Processes)

- Decision Making (Voting)
- Communication Process
- Selection of Family Council
- Ownership Structure
- Share Transfer and Liquidity
- Conflict Resolution Process
- Employment Policy
- Dividend Policy
- Define Family Member

3 Galvanize (Open debate, not conflict avoidance)

- Select outside directors or facilitators
- Discuss Family Issues
- Discuss Business Issues
- Succession

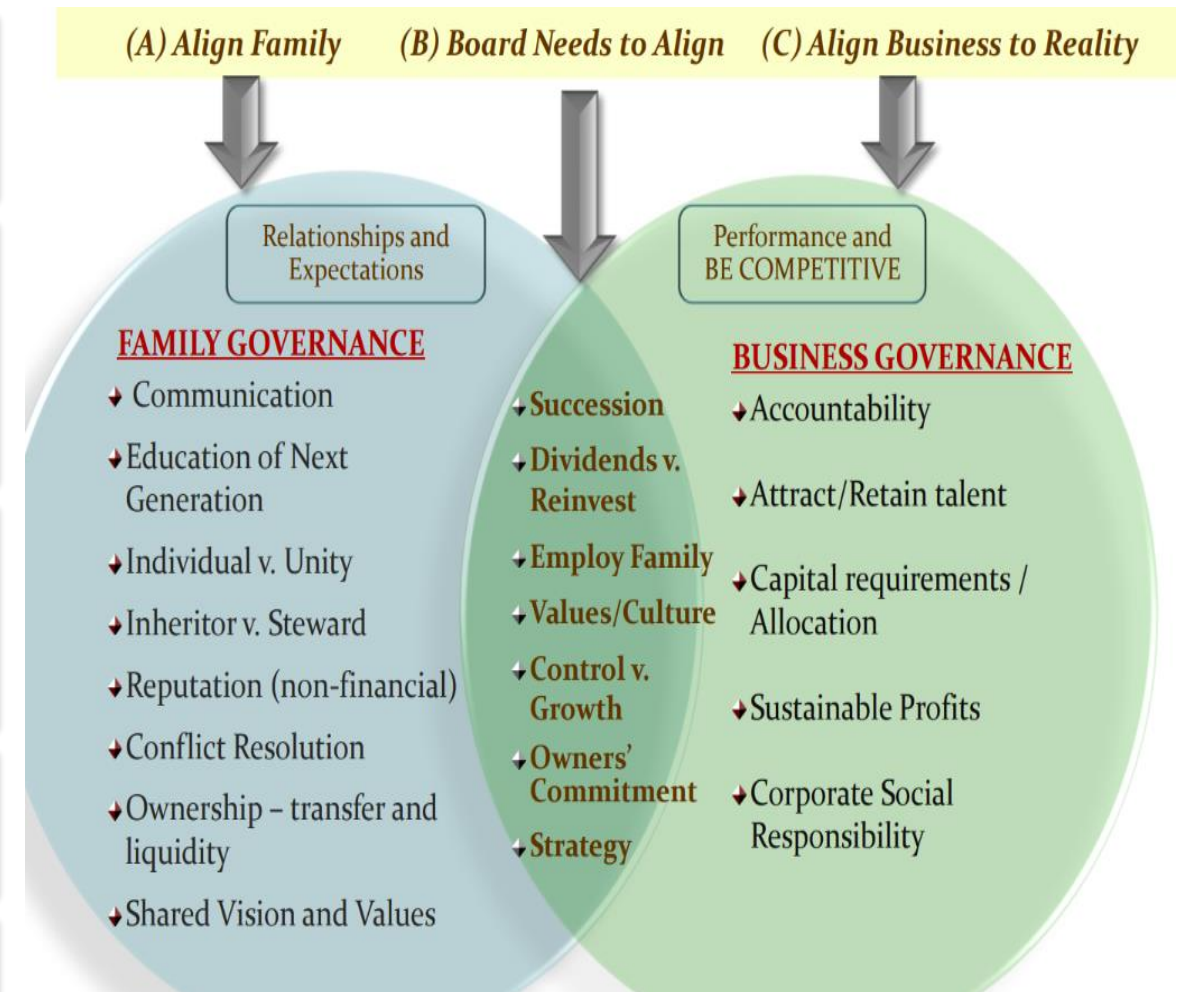
4 Groom

- Family Succession
- Business Succession
- Train/Educate next generation
- Leadership Development

5 Grouping

- Different Roles (management owner, family member, director)
- Accountability
- Define family member
- Role of Senior Generation

Committed Family = Competitive Advantage Need Family & Business Governance – in parallel, inter-related



Appendix – from Kuala Lumpur in 2015

Governance Issues	Widely Held Companies	Family as Concentrated Shareholder	Issues – if independent director or minority shareholder
Stakeholders	Shareholder value + ESG	Stakeholder, community roots, values driven	Risk of family protecting its social status & jobs? Family wants control (no dilution) over growth?
Time horizon	Short term (quarterly)	Longer term (but can be sentimental)	Who is more likely to reinvest for the long term?
Strategy	Focused but M&A & debt	Conglomerate structure. Fiscally conservative	Family companies often more prudent – a plus? All family aligned? (eg., dividend v. re-invest)
(Mis) alignment with shareholders	Not as committed/ perverse incentive plans. Other people's money.	Family shareholder aligned with own money and reputation at stake	How to avoid family having conflict of interest or comingle between family and business? Better if family is owner but not owner-manager?
Succession Planning	Standard practices	Nepotism, family politics, & 3 transitions (ownership, generational, and management).	What is the family governance? Is next generation interested, capable and ready? Family open to outsiders (professionalize)?
Potential value leakage from:	Principal -agent. Excessive Executive Pay	Principal-principal. related party transactions, tunneling, business = family's ATM or social security	Principal-principal problems are different from principal-agent problems? Better if family is owner but not owner-manager?
Board independence & nomination	Loyal to management, proxy access issues	Loyal to family, family nominates family and friends	Is this less of an issue for family companies if family is aligned as a shareholder?
Shareholder engagement (who, free rider, collective action)	Often disengaged. Who is shareholder (proxy service, investment chain, index funds). Comply with stewardship codes.	Family are identifiable owners with incentive to be steward and monitor (family shareholder has no free rider or collective action issues) Fragmented shareholding?	While dispersed is disengaged, family shareholder is about appropriate engagement with the business? Easier and better for management to engage with identifiable owners, ie family shareholders? How about for minority investors? Are all family shareholders aligned?
Control v share %'s	Dual class (eg Alibaba)	Pyramid structure, cross shareholding, dual class	Is entrenched owner-manager worse than manager?
Table agenda items	Management controls	Family controls	Which is worse, mgmt or family controls?