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ASIAN INSTITUTE OF MANAGEMENT

50
1968 — 2018

BASANT AND SARALA BIRLA PROFESSORIAL CHAIR IN ASIAN FAMILY CORPORATIONS

VANSH SHASTRA

Advancing the Knowledge-base to Strengthen Asian Family Businesses
by Asians for Asians

SPECIAL FEATURE

Wei-Han Mo, A Man in his Own Right

By **Prof. Dr. Andrea Santiago**

4

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UPCOMING EVENTS

BIRLA Asian Family Business Case Competition

25 – 27 July 2018

The BIRLA Professorial Chair in Asian Family Corporations will be holding the first Asian family business case competition. The case competition is a platform to bring together students across Asia to analyze unique real-life family business issues. The competition will help harness their focus to produce solutions, which are original, innovative, relevant, and practical.

4th Breakfast Forum

Bringing the Family into the Business

23 August 2018

Oftentimes, a family business is not built to be a family business. However, as businesses grow, the founder starts to view the business as a way of building the family's legacy. This forum will have family business founders and a member of their family will share growing pains as well as, their rationale for bringing the family into business. In addition, the founder will discuss how he/she encouraged and groomed members of the family into future successors of the business.

4th Family Business Workshop

You and Your Family Business: A Journey of Family Discovery

20 – 21 September 2018

The workshop will provide to family business members a journey of self-discovering to develop the skills, to strengthen and align business and family core values, to manage conflict and create family business communication styles.

5th Breakfast Forum

Overcoming International Borders: Global Platforms of Family Businesses

15 November 2018

As countries adapt to globalization and reduced trade barriers, family businesses are challenged to improve international competitiveness and reach out to markets beyond local borders. This forum will have family business leaders sharing their insights on globalization strategies as they pursued opportunities to export local products, set-up international offices and branches, or establish international business partnerships. Further, they will discuss the challenges and solutions they deployed in managing operations in a different culture and environment.

For inquiries, please contact the **BIRLA Team** at **birla@aim.edu**.

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BASANT AND SARALA BIRLA PROFESSORIAL CHAIR IN ASIAN FAMILY CORPORATIONS

VANSH SHASTRA वंश शास्त्र

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About Basant and Sarala Birla

From a mere surname, the name Birla has morphed into a known global brand. The business has grown into a legacy heralded by the grit and determination that spans four generations and a strong foundation based on values and strong business acumen.

ORIGINS

On 9th July 1918, Mr. Ghanashyam Das Birla (1894-1983), a noted philanthropist, freedom fighter, "Padma Vibhusan" (the second highest Indian civilian honor) recipient, and one of the closest associates of Mahatma Gandhi, established Birla Brothers and under its aegis set up a jute brokerage firm and jute mills in West Bengal, thus laying the foundation for the beginning of the Birla industrial group.

Mr. Basant Kumar Birla is the youngest son of Mr. GD Birla, born on 16th February 1921. His journey into the world of business started at the age of 15 in the offices of Birla Jute Mill, Kesoram Cotton Mills and Bharat Sugar Mill. In the next two decades, he set up many companies including Bharat Air, which was later nationalized and merged with Indian Airlines on 9th August 1953, Bharat Commerce and Industries Ltd., Jay Shree Tea & Industries Ltd., and Century Enka Ltd. He acquired various companies including Manjushree Plantations Ltd. and Century Textiles. In 1959, he established the Indo Ethiopian Textiles Shares Company, which was the first major venture by any Indian industrialist. Thus, the family business became one of India's first truly multinational corporations with a wide array of various business categories.

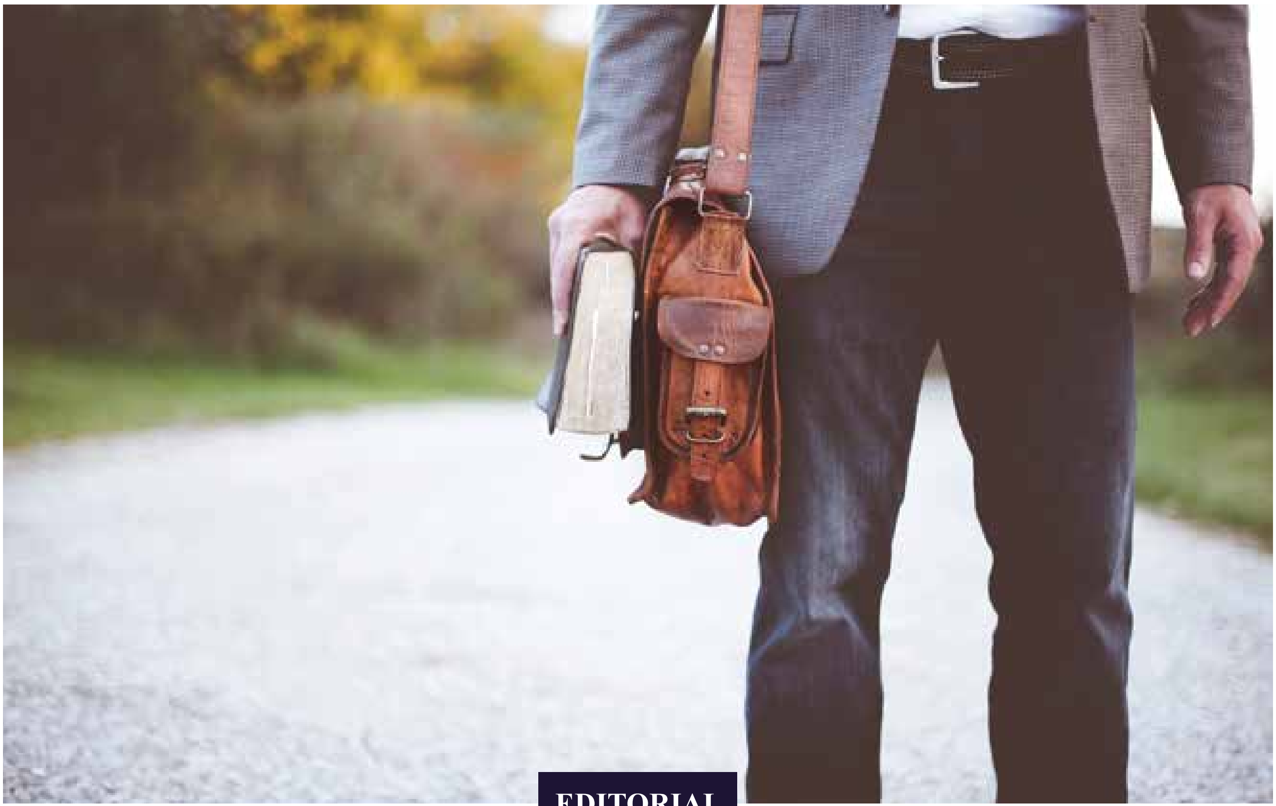
PERSONAL LIFE

On 30th April of 1942, Mr. Basant Kumar Birla married Madam Sarala (1923-2015), the daughter of freedom fighter Mr. Brij Lal Biyani. She came from a very emancipated family and was very well educated. She studied at Fergusson College and was an active sportsperson of repute especially in 'Kho-kho' and badminton.

The union of Mr. Basant Kumar Birla and Madam Sarala Birla became a partnership that shaped the dynamics of the BK Birla group. The foundation they laid, based on strong Asian family values, enabled future generations to bring the Birla legacy to greater heights. Mr. Basant Kumar and Madam Sarala raised three children; a son, Mr. Aditya Vikram Birla (1943-1995), AIM Governor (1991-1995) and founder of USD 41 Billion Aditya Birla Group; and two daughters, Mrs. Jayashree Mohta and Mrs. Manjushree Khaitan (current Executive Vice Chairperson of Kesoram Industries), to whom they passed on the Birla family values of honesty, dependability and hard work.

Apart from the business, Mr. Basant K. Birla and Madam Sarala Birla are well-known for their community outreach initiatives and promotion of social causes. Mr. Basant K. Birla is the Chairman of the Birla Education Trust, Shree Krishnarpan Charity Trust, BK Birla Institute of Engineering & Technology (BKBIET), and various educational trusts and institutes such as the Sangeet Kala Mandir and Birla Academy of Art & Culture. Madam Sarala had pioneered girl education and was actively involved in the running of several schools in different parts of the country till her demise. They established more than 30 leading educational institutions that imparted education to more than 50,000 students in India and abroad.

Today, while Mr. Basant Kumar Birla is the Chairman of the group; Mrs. Manjushree Khaitan as the Executive Vice Chairperson of Kesoram Industries Ltd. manages the business affairs aided by a team of trusted professionals. She ably carries forward the BK Birla group mission of adding value to stakeholders namely customers, shareholders & society with integrity, commitment, zeal, seamlessness and speed.



EDITORIAL

Professional Executives in Family Business

By **Prof. Dr. Andrea Santiago**

There comes a time in the family business when professional executives are needed to bring the business to the next level. Professional CEO's, in particular, can provide a fresh outlook, a new set of skills, and whole network that can enhance business growth. Large family firms, especially those that have become publicly-listed, benefit from non-family executives.

The transition to professional management is not an easy task. Sometimes, it takes families a long time to realize the need for professional executives, and then, an even longer time to select the non-family executive who is able to grow the business without disregarding everything that the family has achieved thus far.

The entry of non-family executives is a challenge for both the family and the executives. The family would need to reassess its governance mechanisms and must wrestle with the idea of being more transparent in its decision-making process. The family must learn to trust others, if it has not already done so. This level of trust will determine the amount of autonomy the executives can have. They should also be willing to share information that they would otherwise keep within the family.

The non-family executives, in turn, must need to understand and accept that there may be certain constraints they would have to deal with because family values and goals may be more important to the family business owners than the bottom line. They would need to blend well with the family but at the same time, remain cautious especially when dealing with family members' views that are may be different from the executives or may be different among family members.

The greatest challenge is when a family is working with non-family executives for the first time. If the experience is positive, this paves the way for more trusting relationships with future executives. If the experience does not meet expectations, this may cause families to reconsider their need and desire for growth. There are families willing to sacrifice growth precisely because of their fear of professional executives.

Of course, getting non-family professionals onboard is not a panacea that guarantees growth for all family businesses and, certainly, timing is very important. There are families that have expanded while keeping executive positions within their family. Family members can be trained and can gain the credentials and expertise of non-family professional executives. But although this limits business expansion without personal managers in place, the route that makes the best sense is the business model the family is most comfortable with.

At the end of the day, it is about the selecting the best person for the position. Therefore, it is not so important that the executive is a family member or not. What is more important is the person in an executive position is able to deliver what he or she promises to deliver.

We hope the articles in this issue are able to provide you the perspective you need in deciding whether it is time to grow the family business with family or non-family executives.

MAIN STORY

Wei-Han Mo, A Man in his Own Right

By **Prof. Dr. Andrea Santiago**

AIM Alumni Association Triple-Star Awardee, Wei-Han Ho, has always been a professional manager. Returning to Taiwan after his studies at the Asian Institute of Management, Wei-Han rose from the ranks at Continental Engineering Corporation (CEC) where he worked prior to joining Ruentex Engineering and Construction Company. It was the second time that he joined the company.

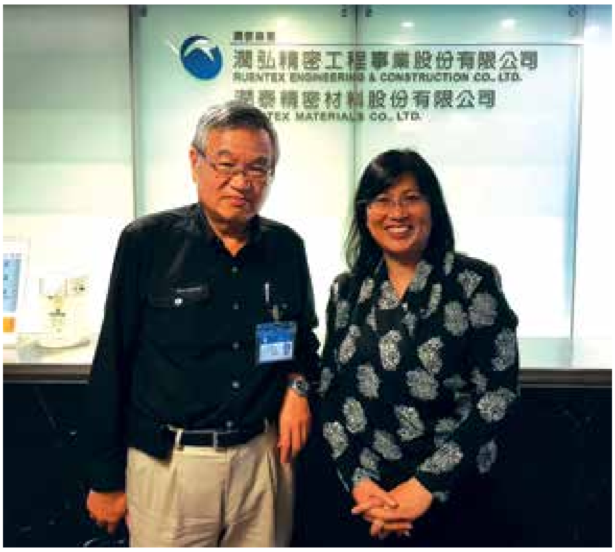
Ruentex Engineering is not among the larger firms of owner Dr. Samuel Yin, it enjoys the personal involvement of Dr. Yin and his wife. Wei-Han has always enjoyed the trust of Samuel and having the ear of the owner made him the logical choice to be the company's president.

Wei-Han recalled, *"I was working for the CEC at that time as the vice president of the company. When I moved here, nearly every day I met with the boss. Maybe even in the afternoon, I would meet with him. And that's considering he is controlling such a big conglomerate. Very few companies are directly controlled by himself. This is the one. He always said, this company is not about making money. It is only for himself."*

It has been a decade since Wei-Han first began working with Dr. Yin. Through all that time, he became used to morning meetings where he would gather all his personal assistants by 6:30. Then by 7:30 Wei-Han would meet with his boss, to talk about all the construction projects.

The company caters to an elite clientele. *"Our company is very special. We are very expensive. We supply very good products and our services are a little different from others. We are not a traditional construction company. We always said if you're been our client even for a home construction, your cat will probably be taken care. We will take care of all services for you. When the people have some business with us, they mostly come back,"* Wei-Han shared.

Indeed Wei-Han enjoys his work; but he has been trying to retire. Only a year younger than Dr. Yin, he feels it is time to slow down. His requests have always, so far, been denied. His boss has yet to identify a successor. Wei-Han shared that none of the owner's children will be part of the construction firm, so it is expected that a professional executive would continue to manage the company.



He further tells us that Dr. Yin has put up a trust funds for his children and he expects them to use these to create their own career paths. Moreover, the Taiwanese billionaire has publicly announced he would donate 95% of his wealth to charity upon his death.

Meanwhile, Wei-Han maintains his admirable work ethic. In recognition of his hard work and loyalty, Dr. Yin has not only rewarded him with bonuses but continues to demonstrate his belief in Wei-Han by entrusting him with new responsibilities.

He shared, *"Now, I'm running the precast business. This was independent before. when it was set up. He wanted it listed in the stock market, so he combined three companies into one. This precast is one of those companies. Now, I am the general of that business."*

Despite his age, Wei-Han continues to work for Dr. Samuel Yin at Ruentex Engineering and Construction. To him, it is not a job. *"In this day, it's working for the life. It's not for the survival. It's for the interest. For as long as I feel happy, I will work,"* Wei-Han says.

CORPORATE HIGHLIGHT

Ruentex Engineering & Construction Co.

Ruentex Engineering & Construction Co., Ltd. is part of Ruentex Financial Group, where Taiwenese billionaire, Dr. Samuel Yan Liang Yin is the chairman and CEO. Apart from the construction firm, the group has investments in textile manufacturing, garment retailing, as well as in commodities trading and insurance. Three of its companies are publicly listed.

Ruentex Engineering is a Taiwan-based construction firm founded by Samuel Yin in 1975. Besides construction work, it also supplies precast concrete products, cements and other construction materials and provides labor manning services.

Ruentex Engineering has a 100% stake in Runyang Construction and a 40% holding in Ruentex Materials Company Ltd.

Taiwan Family Businesses and the 'Non-Family Business Manager' Factor

By **Ann Loraine Estrella, Christine Josette Lopez, Fiona Mae Reyes, and Allanne Mae Tiongco**

Taiwan is considered the 7th largest economy in Asia, based on 2016 gross domestic product (GDP) (Minnock, 2017). Despite a decrease in GDP from the previous year, the electronics industry, the country's major industry, has significantly contributed to keep its ranking as one of the top Asian nations year after year. This is because of the sector's long-term growth and technological advancements. Given these technological advancements, the country is a top player in the world's information and communication technology industry, as well as a major supplier of goods across the industrial spectrum.

Despite these advancements, the country has had more than its fair share of internal and external challenges such as diplomatic isolation, low birth rate, a rapidly aging population, and increasing competition from China as well as other Asia-Pacific markets. To surmount these obstacles, Taiwan's Minister of National Development Council, Ms. Chen Mei-ling implemented a new model for economic development that seeks to foster innovation-based growth. With this premise, the nation's growth would be boosted by promoting innovations, increasing employment and ensuring equitable distribution of economic benefits and other resources (Taiwan Industrial Development Bureau, n.d.).

On the back of the continuous growth of Taiwan's economy, are the family-owned businesses. Notably, out of 141 corporations, 66% companies are controlled by families (Claessens, Djankov, & Lang, 2000). These family businesses have shaped the main part of the overall structure of the country by means of creating employment opportunities into stable and prosperous social life (Wang, Chuan, Liu, & Shih, 2014). Huang & Chang (2010) stated that the businesses "are mainly active in finance, basic infrastructure, and other conventional industries; an ordinary citizen spends a lot on products of these industries since these are part of their basic needs, therefore [the spending] lines the pockets of these family conglomerates." In essence, family businesses play a significant role as they control a lot of resources, including physical, human, organizational and process capital (Habbershon & Williams, 1999).

While family businesses continue to be at the forefront of Taiwan's economy, family firms still face numerous challenges, particularly in business sustainability. According to Yeh et al. (2001), to effectively control a family firm, one would need fifteen to twenty-five percent ownership or control of the business, depending on its size. Presently, one of the pressing concerns for Taiwanese family firms is the lack of interest by the next generation in the business which subsequently raises issues on succession (Menconi, 2017).

> **The ideal family businesses have some non-family members since not all members of the family firm can provide all the skills required to operate the business.**

In a report from the Taiwan Institute of Directors, majority of Taiwanese family businesses are characterized as export-oriented manufacturing companies which are not attractive to younger generations of family members (Wu, 2012). In the case of large Taiwanese companies, Sui (2014) stated that they "have simply become so large that younger family members have been left incapable of taking on a senior leadership role." Considering the various constraints and challenges faced by Taiwanese family businesses, it can be said that there is no best management formula model for family businesses. In fact, some of Taiwan's biggest firms and technology giants such as Acer and Quanta are exposed to the challenges that will be discussed later (Wu, 2012).

Family businesses play a significant role as they control a lot of resources, including physical, human, organizational and process capital.

To face these challenges, Wu (2012) proposes that forming a different foundation, trust, or holding company can help sustain long-term and mutually beneficial relationships within the company. Another way is for the family to clearly define the rights and obligations of the family members in the business to avoid misunderstandings and conflict (Jaffe et al., 1998). Lastly, the hiring of non-family members would provide better support to the family business specifically in innovation and professionalizing business operations (Fahed-Sreih & El-Kassar, 2017).

There is a positive relationship between the percentage of non-family members and the use of financial management methods (Sonfield & Lussier, 2009). As such, non-family business managers are perceived to bring their knowledge, skills, or experiences from outside the family business and subsequently, contribute to the professionalization of the business. However, to retain harmony within the family and business, non-family business managers would be required to understand the values and the ethos in the family business to be able to work efficiently (Mancier, 2007) and in cooperation with family members involved in the business.

The ideal family businesses have some non-family members since not all members of the family firm can provide all the skills required to operate the business (Gray, 2015). As a result, family businesses need to explore external talent and skills that are not available within the family. Finally, a non-family member can offer objectivity, fresh insight, different sets of skills and knowledge, and various experience carried from the different sectors of the business world (Susco, 2018).

In Taiwan, Acer is one example of a prominent family business established by Stan Shih. Passionate about knowledge sharing as a way of contributing to society, Stan Shih, his wife, Carolyn Yeh, and five business partners established Multitech in 1976. The company was later renamed Acer in 1987. Presently, Stan Shih and his wife own 3.34% of company shares while maintaining their seats in the company's board of directors.

However, according to Haley et. al (2012), Stan Shih will not hire his children in the business. In fact, in an interview with Forbes (2017), Maverick Shih stated that Stan Shih advised his children not to join Acer. When Stan Shih retired in 2004, a non-family business executive, Gianfrano Lanci, took over as the CEO and Chairman of Acer but, later resigned due to disagreements with the board (BBC, 2011). While Gianfranco pushed for the globalization of the company through development of mobile phones and tablets, his ideas were perceived to be leaning towards the "de-Taiwanization" of Acer. In an interview with Fried (2011), Gianfranco explained that "if we want to be in the top three (PC makers) in the next three to five years, we need to be a global company and we need to leverage resources wherever they are."

In 2011, JT Wang took over as head of the company but, later resigned due to the company's poor financial performance (Summers, 2013). Following JT Wang's resignation, Stan Shih briefly returned as the chairman in 2013 however, he handed the leadership over to George Huang in 2014. Because of management turmoil and different consumer demands, Acer continued to suffer from worsening financial performances. In addition, Acer's reputation still ranked behind market leader Lenovo, Hewlett-Packard, and Dell (DH Kass, 2013).

Prior to Chen's appointment, the public had assumed that Stan Shih's eldest son, Maverick Shih, would be assigned the leadership role, but Stan Shih was not sure if Maverick would have a seat at the board (Li, 2016). Presently, Jason Chen remains president and chairman of Acer while Maverick serves as the CEO of Acer Cloud Technology TW.

Compared to the previous non-family business executives of Acer, Jason Chen had a widely different set of experiences and educational background which made him stand out at Acer. He had a degree in Business Administration majoring in Communication and Transportation Management from the National Cheng Kung University. He also had an MBA from the University of Missouri.

Since 2013, Jason Chen has been leading Acer as the company's chairman and Chief Executive Officer. Chen started his stint in Taiwan's technology industry when he worked at IBM Taiwan from 1988 to 1991. In 2005, Chen became the Vice President of Corporate Development at Taiwan Semiconductor Manufacturing Company; and Senior Vice President of Worldwide Sales and Marketing for the same company in 2008. In addition, he worked at Intel for fourteen years with positions in sales and marketing. In an article by CTimes (2017), Chen was credited for Acer's quick turnover in profits within the first financial quarter; and for the expansion of Acer's business scope in the following three years. Through Chen's leadership, the net income of Acer amounting to NT$1.45 billion (USD 4.88 Billion) marked the company's highest profit on the back of strong business momentum, stabilizing operations and profitability.

Based on Acer's experience, non-family managers can ruin the company's performance. Hiring non-family business managers may continue to be a source of debate and conflict considering Acer's earlier experiences with non-family business leaders and their inability to revive the business. However, Jason Chen showed that non-family managers can also provide a company fresh ideas and new perspectives for the direction of the business. To ensure business sustainability and profit, family business executives and non-family business managers would need to set aside their differences and unite under a common goal.

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Integrating Professional Management into the Family Business: The Significance of Family Values

By **Karina Iris B. Yuvallos**

Incorporating non-family managers and executives into the family business can be a strategic move in growing and managing the firm. Conventionally, these managers are looked up to as seasoned sources of insight when it comes to the technical know-how required in running a business. Other times, they act as helpful arbiters in the realm of objective decision-making when family affairs become complexly intertwined with those of business. Issues such as planning for succession as well as managing conflicting interests among family members in firm leadership may become more objective processes under the guidance of unbiased professionals—especially when the professional understands the family well (Sundaramurthay, 2008). In addition, an outsider's perspective may serve as a voice of reason particularly against groupthink, which often occurs in cohesive, highly interpersonal groups and pertains to their making flawed decisions as a result of group pressure that reduces good judgment (Janis, 1982).

Alternatively, as a family enterprise enters its period of maturation—becoming a large company, employing thousands of individuals, or evolving into a publicly listed corporation—welcoming non-family managers appears to be a natural aspect of the family business cycle (Peiser and Wooten, 1983). In order to manage the firm's rate of expansion, capable professional managers, who bring with them sound business principles and sophisticated management expertise, appear to family business owners as integral to the pursuit of longevity and continuity of the family business. For example, Frederic DyBuncio, the first non-family president of the Sy-owned SM Investment's Corporation, which has the largest market cap in the Philippines, shared that "the Sy family is very focused on professionalizing; they see that it's pivotal and necessary for growth and prosperity to continue".

However, despite the frequent and prevalent desire to professionalize the family firm, family businesses often fail to do so in practice (Stewart & Hitt, 2012). Often, business families fail to adopt professional management—or professional managers do not successfully integrate into the family business—resulting in a termination of the business relationship at some point after venturing into a partnership.

Why does this happen? Specifically, for what reasons do family firms' endeavors at professionalizing sometimes come to naught? One fundamental notion is anchored on the enterprising family's values. That is, family firm leaders or founders may reject non-family managers when they find that their values, and overall objectives appear to fundamentally differ from their own (Dyer, Jr., 1989). Simply put, an enterprising family's attempt to professionalize the business often fails, because non-family managers are perceived to be unable to adopt the family culture of the family firm.

THE FAMILY BUSINESS AND FAMILY VALUES

Needless to say, family businesses differ from their non-family counterparts, and at the heart of the family firm is the family. While critics argue that familial values can conflict with business principles, e.g. unconditional love and profitability (Dyer, Jr., 1989), others suggest that the confluence and productive mixture of family, business, and symbolic values in the family firm can be "mutually enriching" (Khanin, Turel, & Mahto, 2012). Lussier and Sonfield (2007), in their article on family and non-family managers, identify culture-related advantages of family businesses as highlighted by a number of studies, such as: "extra-ordinary commitment (Donnelly 1964; Horton 1986), more warm, friendly and intimate relationships within the management team (Horton 1986; Staff 1981), the potential for deep firm-specific tacit knowledge, often based on early involvement in the firm (Lane & Lubatkin 1998) … and the creation of a synergy in the top management team due to higher cohesion, potency, and positive task conflict (Ensley & Pearson 2005)".

As a step beyond these firm characteristics, family businesses imbed in their organizations a family culture, as a consequence of their perceived family identity (Dyer, Jr., 1989). For example, Francis Giles Puno, non-family president of First Gen Corporation, a publicly listed company owned by the Lopez family, stated that integral to the operations of the firm is what they call, the "Lopez Credo", which are the guiding principles of the Lopez family business, such as serving God and the Filipino people, among other things.

According to Giles Puno, it is meant to be an illustration of what the group represents and is a reflection of the family's beliefs over the business, with special emphasis on its permanence through succeeding generations. The credo is recited before every meeting and is outlined for the entire organization to adhere to. Another powerful Filipino business family, the Villars, also practice their own set of corporate values that they make known to the entire organization (Vista Land, n.d.). According to Cynthia Delfin, these corporate values "are really family values"—values of closeness to customers, teamwork, and honesty, among others. Delfin, one of the first professional managers to work for the Villars, shared that she and her teammates had to specifically learn the culture and values of the family, and that those who were not successful did not survive in the Villar corporation.

As such, Berenbeim (2009) found that enterprising family members will resist actions or behaviors that appear to be inconsistent and that interfere with what the family believes to be the family business or company image. Furthermore, a major concern when it comes to the issue of generational succession is whether the new CEO will show respect for, maintain, and protect the company's traditions and culture, or not. Meantime, Dyer (1989), in his comprehensive article on professional management integration, observes that another factor that impacts on the success of adopting non-family professional managers may be traced to the conflict that arises from their inability to agree on practices, expectations, and/or culture deemed essential to the founder. Thus, consistency and respect for family culture, appears vital in a business family's search for and appointment of professional management and thereby, their ability to professionalize the firm through professional managers.

Given the importance of family values in the family corporation, how can professional managers better assimilate and hence successfully integrate into the family business? Dyer, Jr. (1989) suggests the following for enterprising families: to socialize potential professional managers in the ways of the family enterprise in order to differentiate and understand the family values, noting what must essentially be upheld and what can be done away with; to directly and clearly articulate the family's ultimate goals for the business, establish a clear bigger picture and allow professional managers areas of elbow room for new ideas; to tie the interests of professional managers to the family firm e.g. through stock ownership and board memberships, and thereby influence professional managers' behavior to be more congruous with family interests as well as encourage them to "think like owners"; and, to encourage managers to become part of the communities relevant to the family business, outside of the corporate setting. According to Lussier and Sonfield (2007), several other authors similarly give voice to the need for such, highlighting the necessity to "socialize new non-family managers, clearly communicate to them existing family values and objectives, and tie the interests of the non-family managers to the firm," (Astrachan & Kolenko 1994; Berenbeim 1990; Dyer 1989; Gubitta & Gianecchino 2002; Sirmon & Hitt 2003 as cited in Lussier & Sonfield 2007).

Overall, welcoming professional managers into the family firm to enrich the business and spur it forward through their technical and management expertise is something many family businesses are determined to achieve. However, a pivotal issue in professionalization has less to do with initiative than with application. It seems that the better professional managers are able to recognize, learn, and adopt the enterprising family's culture, values, and traditions, the more likely it is for professionalization to succeed in the family firm.

Statements made by Frederic Dybuncio, Francis Giles Puno, and Cynthia Delfin were taken from discussions held at the 3rd BIRLA Breakfast Forum entitled, "Traversing the Family Business Path: Insights from Non-Family Leaders".

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Snapshots

Meeting with Family Firm Research Centers in the Asia-Pacific

2 March 2018 | Asian Institute of Management

Prof. Dr. Andrea Santiago with Greg Griffith, Family Business Australia; Jeremy Cheng and Qian "Winnie" Peng, Tanoto Center for Asian Family Business HKUST; Prasad Kumar, Human Endeavor; Ryuji Konishi, Japan University Accreditation Association; Yoshiro Yamamura and Fujio Yamaguchi, Meiji University; Michael Mustafa and Hazel Ramos, University of Nottingham, Malaysia; Leilanie Mohd Nor, Taylor's Business School; Mohar Yusuf, Universiti Tun Abdul Razak, and AIM-Masters in Entrepreneurship (ME) students.

Traversing the Family Business Path: Insights from Non-Family Leaders

3rd BIRLABreakfast Forum | 19 April 2018 | Asian Institute of Management

Prof. Dr. Andrea Santiago with Cynthia Marie Delfin, Vitacare Health Group; Frederic DyBuncio, SM Investments Corporation; Giles Puno, First Philippine Holdings Corporation; and, Rowell Recinto, Araneta Group of Companies.

Glass Ceilings in the Family Business: Myth or Reality

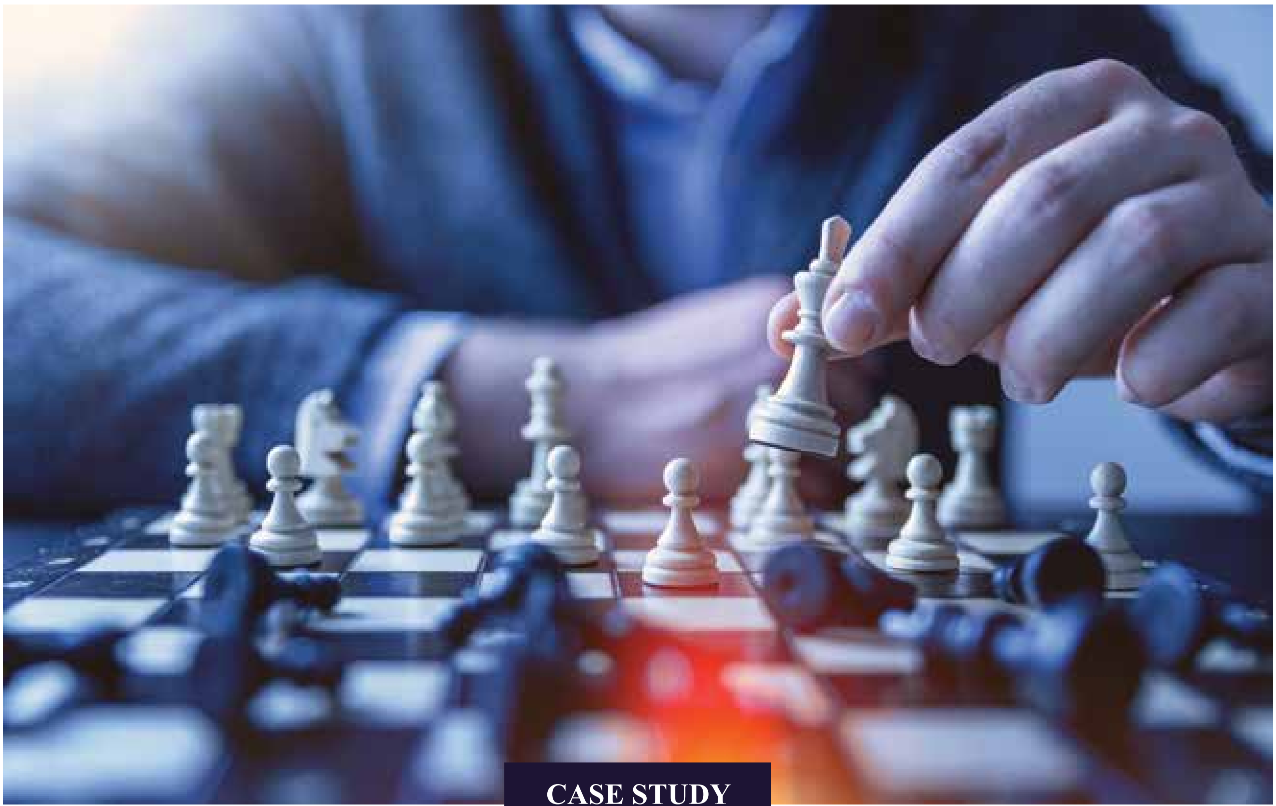
Family Business Workshop | 22-23 February 2018 | Asian Institute of Management

Prof. Dr. Andrea Santiago with Prof. Nieves Confesor and workshop participants

Family and Business Wealth Continuity: Building a Foundation for the Next Generation

BIRLA Seminar Series | 12 March 2018 | Asian Institute of Management

Prof. Dr. Andrea Santiago with Terry Alan Farris, AIM-Scientific Research Foundation; Atty. Jules Riego, SGV & Co.; Atty. Cirilo Noel, EY Global Limited; Kevin Chin, Arowana International; Dicky Ang AIA Singapore; and, seminar participants



CASE STUDY

The Choice to Preserve the Culture of Family Guanxi: The Case of Zhang Family

By **Lennard Prado**

It was Wednesday morning when Zhang Jin, owner of the Baekeland Co. was caught coming apart at the seams as he held two separate letters from two of the company's biggest investors, stating that they already wanted to pull out their shares from the company. It was at that day as well when he started to realize that there is a problem in the operating mechanism of the business.

Earlier that week, he received a notice from Zhang Penchang, his eldest son, the Chief Operating Officer (COO) of the company. "Father, over the past months, the sales of Baekeland Co. was continuously declining. Our revenue fell 6.3% and that quantifies to almost 4.3 billion USD. In premarket trading, the company shares fell 4.4% and that counts to more or less 51.60 USD. This is very alarming and has to be treated with urgency," Penchang remarked.

Days after he received the notice, Jin called for a meeting. The meeting was more likely to be a family gathering since most of the people who are on top of the company's hierarchy came from his small pool of family relatives. The meeting became an avenue for Jin to discuss the causes of the crisis. "It has been seen from the recent report that over the past months, we weren't able to meet the target quota of our sales. Can you tell the story behind this Hannah," he asked.

Zhang Hannah, the wife of the eldest son, who is in charge of the sales and marketing department of the business, was struck dumb for a moment after being interrogated. "I think the problem does not lie on my managerial mechanism. It has something to do with the employees who are working under my department. They don't exert much effort to reach the target quota, and even if you give them warnings, they still feel unalarmed. This is because they are related by blood to their supervisors; that's why they feel that they are safe from any kind of sanctions. In fact, I was in shock to know that 75% of them are family-related," she responded.

The wife of the second son, Zhang Jina who is in-charge of employment spoke in defense of herself, "I firmly believe that this has nothing to do with the employees since the HR always assures that we get the best people to work in this company. Sales is one of the departments that needs to be driven hard, and there is a strong need for a leader who can make effective managerial decisions. I think it is because of your incompetence that sales is declining."

Hearing the sides of in-laws, Jin was perplexed. The argument intensified with each blaming the other. The quarrel between the two in-laws did not stop until the meeting was adjourned. The meeting had ended, but the problem was left unsolved.

BUSINESS HISTORY AND BACKGROUND

Jin had a humble start. Before reaching the peak of the business, he was a zealous farmer in the province of Zhejiang in Mainland

China. In 1979, in the same place he was raised, Jin established his business with merely 3000 RMB as a starting capital. He named it the Baekeland Co.

In the early years, the company pivoted around the production of metal accessory and nut. Over time, the business shifted to molding machine industry. It was then that he came up with a sought-after invention. This was the injection molding machine. The product created a buzz in the market that resulted in the rapid development of the company.

The growth of Baekeland Co. continued to flourish when Jin established Leo Baekeland Research Center (LBRC) in 2002. Soon after, LBRC became one of the premiere academic institutions that specialized in developing machinery for plastic processing in China. Consequentially, this steady pursuit of advancements through research and development paved way for the business to maintain its title as one of China's leading company in plastics machinery industry. Not long after, Baekeland International Holdings Ltd. launched its Initial public offering (IPO), and made it on the main board of Hong Kong's stock exchange listing. With enough capital, in 2004, the company was able to acquire one of the known plastic manufacturing companies in Germany, the Parkes Group Ltd. by buying 35% of its total shares.

FAMILY BACKGROUND AND THE CONFUCIAN TRADITION

Jin has a high respect in the Confucian culture of family Guanxi particularly when dealing with business. Family Guanxi is an encompassing culture in Chinese society that entails an innate social network derived from an obligation to value personal links within the family. In Jin's standpoint, he would actualize the Guanxi culture by not professionalizing non-family members in the business, and instead immersing his family relatives such as his two sons in the company so that the passion to run the wheel of the business will still be carried out onto the succeeding generations of his own clan.

In addition to that, for Jin, the plan to position blood relatives in the business will pave way for him to preserve the network and connection from which he built under his name with other Chinese families who also own businesses. This is the reason why he persuaded his two sons to enroll in an executive training program to refine their management skills, while still holding managerial positions in the company.

Soon after they had accomplished the training, the nearly-retired Jin placed his two sons on the executive podium. By then, Penchang, the eldest son had a Master of Business Administration degree obtained from Ningbo University. He had his debut in the company as marketing and sales manager in 2009 and subsequently rose to take the role of COO. Penchang's younger brother, Zhang Himok, who had graduated also from Ningbo University but with a Master degree in financial management, started a year later as financial manager and eventually became the CFO. To emphasize the nuclear family-controlled nature of the company, even Jin's wife, Zhang Kimi was given a position as she spearheaded the human resource department, and eventually became the financial manager soon after her two sons were promoted.

ADHESION TO FAMILY GUANXI CULTURE

Before implementing his plan to promote his two sons in the executive positions, Jin was in a predicament as to whom he would entrust the positions that were to be vacated. Penchang suggested that it would be better if the company will hire competent professionals instead of getting from their small pool of family relatives. He pointed there was no one from the family who was capable of taking over the positions. However, Jin felt bound by tradition and the culture of adhering to family Guanxi. He believed his daughters-in-law should take the managerial roles.

He insisted that the the wife of his eldest son, Li-Ann act as the marketing and sales manager. Just like Penchang, Li-Ann was raised by traditional Chinese businessmen. However, because of her interest in art, she did not join her family business.

With respect to the managerial position in the finance department, Jin felt that the person to be appointed needed to be trustworthy. He decided to appoint his wife as finance manager and then appoint Che-So, the wife of Zhang Himok to take over the human resource management position. It was an ideal situation, Che-So had graduated with a degree in psychology.

MOVING FORWARD

Later that night, Jin asked for a moment with his two sons. The men had dinner together and discussed the current condition of the family business. Zhang Himok was the first to open the discussion. "I reviewed the situation in our sales department and I believe that nepotism is affecting our performance. I just received a report from one of the staff from that some family conflict has affected their morale".

Penchang replied, "Nonetheless, if my wife is competent enough, this could have been prevented. In addition to that, I have also found out that most of the hired employees from our company came from the family side of your wife and didn't come from outside. She has been employing her family members without requiring the needed technical competence."

Zhang Himok faced his father with earnestness and spoke, "Father, now is the time to shun the tradition of Guanxi, owing to the crisis that our company is facing right now. We should start professionalizing new talented and competent non-family professionals who are efficient enough to contribute to the growth of our business."

Penchang followed, "That's true father. It's time for us to weaken the concept of familism in the company, and should start giving our fullest trust to those professionals who can really meet our specifications and standards."

Jin replied, "You know, during those times, when the company was having its first crawl, fundamentals formed by tradition and culture were like maternal hands that helped the company on its first baby steps. This might be the reason why I am so reliant with the potential of tradition. However, as we encounter such crisis, now I came to realize that the call of time changes and that there are certain traditions and culture that are not worth-sustaining anymore. In the long run, our company will mature and will be facing greater challenges. I agree with the both of you. We will be needing competent professionals may it be a family member or not, who share the same vision as you are, because at the end of the day, the greatest asset of the company is nothing but its people."