

# Stewardship Principles for Family Businesses

Fostering Success, Significance and Sustainability



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# About Stewardship Asia Centre

Stewardship Asia Centre is a non-profit organisation supported by Temasek, committed to working with partners to uplift stewardship and foster effective governance across Asia.



# Preamble

## Stewardship matters for successful and enduring family businesses

Stewardship is a defining hallmark of businesses that achieve success, significance and sustainability.

In crux, stewardship encapsulates the essence of responsible and meaningful value creation in a sustainable way to benefit stakeholders, as well as the larger community that they are a part of. It underscores the importance of an ownership mindset, a long-term perspective and an inclusive approach. These stewardship elements undergird and reflect the business leaders' motivation and commitment to nurture and grow what they are entrusted with, such that it can be handed over in a better shape to successors.

Stewardship is particularly pertinent to family businesses (FBs), which form a key component of economic activity around the world. This is especially relevant in Asia, where FBs remain the mainstay of business ownership, and families continue to be influential players in the business landscape, as owners as well as managers. Successful and sustainable FBs create wealth and growth for the family across generations. In their stewardship journey, such great and lasting FBs leave a rich legacy, contributing significantly to the multiplier effects such as knowledge creation, economic development and capacity building of human and social capital to benefit society in the long run.

FBs are very diverse in nature - ranging from small, medium local enterprises to huge conglomerates that operate across industries and countries. For our purpose here, we broadly define FBs to include companies with the presence of family members as shareholders as well as board members and managers who are able to influence strategic decisions. We use the term FBs to include family companies, family firms and organisations.

Notwithstanding their diversity in scale and nature, FBs in general face some common challenges:

- Responding and adapting to the vortex of disruptive changes stemming from the global and local fronts, while still maintaining the sense of purpose that propelled them to success
- Maintaining coherence and harmony as ownership becomes more fragmented over time
- Attracting, retaining and "professionalising" talents that constitute the human capital essential for FBs to maintain their competitive edge
- Transitioning successfully during periods of leadership renewal, especially for firms where the influence of the founder-leaders dominate
- Guarding against the pitfalls of hubris and complacency on one hand, and a reluctance to adapt due to inertia to changes on the other
- Upholding high standards of resource management and corporate governance

Faced with such challenges and an increasingly demanding business environment, stewardship has become all the more relevant and important. Well-stewarded FBs emerge over time as engaged, forward-looking and adaptable enterprises. They are able to leverage their inherent strengths and competitive advantages. Guided by their values, such FBs remain resilient in the face of changing times and disruptions, overcoming adversity and outperforming their competitors.

Stewardship is, however, always a journey. Every generation of FBs faces unique circumstances, challenges and opportunities. A FB with a successful stewardship experience in one generation does not guarantee its continual success into the next. Hence, for FBs striving towards success, significance and sustainability, a resolve to continually imbibe, propagate and reinforce stewardship concepts and actions is vital, and remains relevant and timely.

## The approach of Stewardship Principles for Family Businesses

Undertaking this exercise is a challenging process as the concept of FBs contains some inherent paradoxes. Firstly, at the level of aspirations, the notions of “family business” and “business family” have different implications – the former prioritising family while the latter prioritising business interests. Secondly, at the level of strategy, conflating short-term and long-term perspectives is often difficult as motivations differ within and across owners, family employees and non-family employees. While being cognisant of these paradoxes, it is nevertheless relevant, useful and possible to establish a set of general principles, which could help FBs on their stewardship journey.

After collating and translating the collective wisdom and knowledge gleaned from an extensive review of literature, as well as consultation with subject matter experts and business families regionally and internationally, we have distilled and organised the insights into seven broad principles. Termed the Stewardship Principles for Family Businesses, they aim to articulate the mindset and attitudes, as well as behaviours and practices that would foster success, significance and sustainability for FBs. These Principles intend and hope to inspire reflections and actions for those who are committed to stewarding their organisations towards sustainable success. As broad principles, they highlight the dimensions that FBs can focus on to develop a stewardship orientation and culture in their organisations with a long-term perspective.

The Principles are not meant to serve as a formula for success or a blueprint for all contexts. As situations differ across organisations, their adoption will require translation and adaptation to make them applicable, useful and effective. Further, these Principles are not doctrinal or prescriptive. They are intended to serve as useful and relevant guides, like “sign-posts” along the stewardship journey for the FBs. In this sense, the Principles will evolve and improve over time, so as to stay useful and relevant for FBs striving for success, significance and sustainability.

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“Traditionally, the focus of business succession is mainly on the downstream activities, and specifically, succession to visible assets. However, I really think that this is very short-sighted and the approach is not effective in terms of family business sustainability. Succession should cover all levels of activities, spanning from upstream to downstream.”

- Mr Morio Nishikawa, Chairman,  
Family Business Advisors Association  
Japan

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# Stewardship Principles for Family Businesses



PRINCIPLE 1

**Driven by purpose,  
anchored on values**



PRINCIPLE 2

**Cultivate an  
ownership mentality**



PRINCIPLE 7  
**Be mindful  
of succession**



PRINCIPLE 3

**Integrate short-term  
and  
long-term perspectives**



PRINCIPLE 6

**Do well, do good, do right;  
contributing to community**



PRINCIPLE 4

**Expect changes, nurture agility  
and strengthen resilience**



PRINCIPLE 5

**Embrace inclusiveness and build  
strong stakeholder relationships**



**PRINCIPLE 1**  
**Driven by a sense of purpose,  
anchored on values**

Successful and enduring FBs establish clarity on the purpose of their existence. Their business decisions and operations are driven by a strong commitment to purpose, anchored on their values. These values, which are built, strengthened and passed down over time, are the fundamentals that act like compass bearings uniting the components of FBs in action. They will help congeal seemingly conflicting family and business identities and interests.

**In practice**

- a. Articulate and communicate clearly the purpose of the FB and responsible wealth creation. This could be transmitted through the family constitution, business philosophy, organisational vision, mission statement and shared stories.
- b. Live out the organisational purpose and values consistently such that they are embedded in the daily language, actions and thinking processes of all stakeholders.
- c. Facilitate the value-alignment process on an ongoing basis for both existing and new stakeholders. This ensures that the transcendental purpose, values and founder's mentality will continue to be inscribed as the company grows.
- d. Provide opportunities for employees to formulate and review the company's mission and values together. This can enhance shared interpretations and encourage collective enactment.
- e. Affirm those who exemplify the values of FBs. Educate those who deviate from them. This allows everyone to visualise how the shared purpose and values will look like when they are put into action.



**PRINCIPLE 2**  
**Cultivate an ownership  
mentality**

Successful and enduring FBs build a culture that instils the ownership mentality. Owners and employees take responsibility and action as well as develop a sense of collective pride to forge proactive and integrative solutions to complex problems and dynamic situations. They see the organisation as an extension of themselves, are willing to be change agents, and act within their locus of control with the interest of the company in mind. They engage and galvanise the diverse parts of the organisation towards a common destination with a collective sense of success and failure.

**In practice**

- a. Instil a culture that emphasises personal as well as collective accountability. Employees are clear of their individual roles as well as shared responsibilities. This enhances ownership, mitigates conflicts and promotes collaboration.
- b. Value the diversity of perspectives. Translate promising ideas into concrete actions whenever applicable. This instils a sense of belonging and pride in employees.
- c. Associate ownership mentality with the drive to take good care of the family business. Family owners should not misconstrue ownership as having the entitlement to use company resources to benefit themselves.
- d. Adopt an ownership structure that fulfils the objective of capital injection as well as family control. This allows FBs to continue to exercise some degree of autonomy over business direction and investment decisions.
- e. Embrace the responsibility for creating long-term social and economic value to a wider group of stakeholders, and not just myopically focusing on family wealth to foster ownership mentality amongst all those who play a role in the success of the business.



#### PRINCIPLE 3

### **Integrate short-term and long-term perspectives**

Successful and enduring FBs do not neglect long-term considerations in the face of pressure from increasing short-termism. They are known to adopt a long-term orientation towards spending and investment, favouring sustainable growth over quick gains.

#### **In practice**

- a. Ensure that short-term decisions are in line with the long-term goals – act today with tomorrow in mind. Be mindful of intergenerational equity and understand the costs and opportunities involved. This maintains coherence across all initiatives over time.
- b. Contemplate the long-term consequences of actions. Spend prudently, invest patiently, re-invest strategically and take calculated risks to reap social and financial rewards in the future.
- c. Exercise sound governance while growing wealth. Consider having a range of mechanisms that allow regular check-ins and management of the business portfolio. Investment and divestment criteria should be transparent and rigorous to build long-term confidence amongst stakeholders.
- d. Understand the history of the family business and the lessons that global development can offer. Leverage the longstanding competitive advantages so that they can continue to contribute towards the long-term development of the business.
- e. Look beyond short-term profitability and temporary gains. Focus on the preservation of intangible values such as kinship and loyalty for the long-term success and legacy building.



#### PRINCIPLE 4

### **Expect changes, nurture agility and strengthen resilience**

Successful and enduring FBs anticipate changes in the business environment and demands, and continually seek to nurture adaptive skills. This is not only to prepare themselves to address challenges, but also to build capacity to leverage opportunities brought forth by disruptive changes, new market imperatives and emerging technologies.

#### **In practice**

- a. Conduct horizon scanning and scenario planning. Understand emerging threats, opportunities and evolving customer needs. Re-calibrate what matters and enact change.
- b. Exercise agility. Arrest and reverse inefficient decisions. Remove emotional attachments to outmoded beliefs, structures, processes or relationships.
- c. Cultivate a growth mindset instead of passively guarding current wealth and traditional practices. Exercise strategic flexibility and draw upon accumulated reserves to develop new market niches at the opportune moment.
- d. Nurture resilience in response to the onslaught of disruptive innovations. Improvise existing resources to devise innovative solutions. Invest in research and development so as to create a leading edge in identified niche areas.
- e. Foster the mindset of lifelong learning to avoid stagnation. Learning includes not only raising the bar of competency and professionalism, but more importantly in inculcating business acumen, perspectives and values. It can be facilitated through organised training, family gatherings, team-building activities, peer coaching, apprenticeship or mentorship.



#### PRINCIPLE 5

### Embrace inclusiveness and build strong stakeholder relationships

Successful and enduring FBs believe that stable and strong relationships with and amongst various stakeholders need to be established and carefully maintained. When resolving internal conflicts, FBs leverage family harmony to promote business unity and vice versa – creating virtuous loops that are difficult to be emulated by non-family businesses. They also reinforce the stability of the social network when interfacing with external stakeholders.

#### In practice

- a. Cultivate an organisational culture that promotes open communication and tolerance, where family and non-family employees can share ideas and resolve differences in a consensual manner via conflict resolution mechanisms. Examples of arbitration mechanisms include people-centred policies, family council and soft persuasion.
- b. Exercise good nurturing. Impart values such as financial discipline and family harmony to the next generation. This paves the way for the development of good relationships amongst family members, which has bearings on how potential family conflicts can be mitigated in future.
- c. Develop longstanding relationships with internal and external stakeholders. Care for the family and non-family members alike to promote reciprocal trust, kindness and compassion. Foster win-win collaboration with external partners in a responsible manner to cement rapport.
- d. Ensure professionalism in the quality of governance. Demonstrate commitment towards business interests to mitigate conflicts associated with complicated or excessive family ownership. Examples of sound governance include embracing board diversity as well as rewarding employees, or exercising hiring decisions based on merit and not entitlement.
- e. Conduct stakeholder analysis. Engage identified stakeholders on a sustained basis to ensure value alignment, problem identification and conflict resolution. Engagement platforms can include annual general meetings, voluntary disclosure reports, collective dialogues, informal meetings and family governance mechanisms.



#### PRINCIPLE 6

### Do well, do good, do right; contributing to community

Successful and enduring FBs adopt a broader definition of success to include doing well, doing good, and doing right as they grow. They see businesses as an integral part of society. They strive to create a positive economic, social and environmental impact. By giving back to society, non-economic wealth such as social capital, communal ties, family reputation and core values will be preserved and transmitted.

#### In practice

- a. Safeguard and enhance the reputation of the family brand. Focus on a “quality first” approach by delivering quality products that are manufactured with integrity and environmental sustainability in mind to reinforce customer loyalty and project a positive corporate image.
- b. Integrate social responsibility into the corporate philosophy of FBs. Identify the social causes that FBs can resonate with. To create real impact, these commitments should be embedded as mainstream and not piecemeal business activities. Social responsibility is not to be seen as a separate part of the business operation, but part of the overall stewardship mindset of the business.
- c. Encourage both management and employees to be involved in volunteering efforts to sustain a connection with the community. Create a visible social imprint by promoting such volunteerism on various media to perpetuate the family legacy and attract like-minded partners.
- d. Evaluate the impact of the philanthropic pursuits, relating it to the intent of the efforts. This can ensure coherence between business goals and societal contributions, thus gaining more long-term support and alignment for doing good.
- e. Uplift the communities from which FBs draw their resources from. Collaborate with multiple parties to understand gaps so as to give more meaningfully. This can promote mutual benefits and build sustainable relationships.



## PRINCIPLE 7

### Be mindful of succession

Successful and enduring FBs truly see leadership transition in a timely and effective manner as a critical aspect of good stewardship. They deliberate, plan and execute their leadership renewal in ways that minimise destabilising shocks and increase the stakeholders' acceptance of the new leadership. Having a robust succession plan is crucial in the context of FBs as succession frequently affects the family dynamics and survivability of the business.

#### In practice

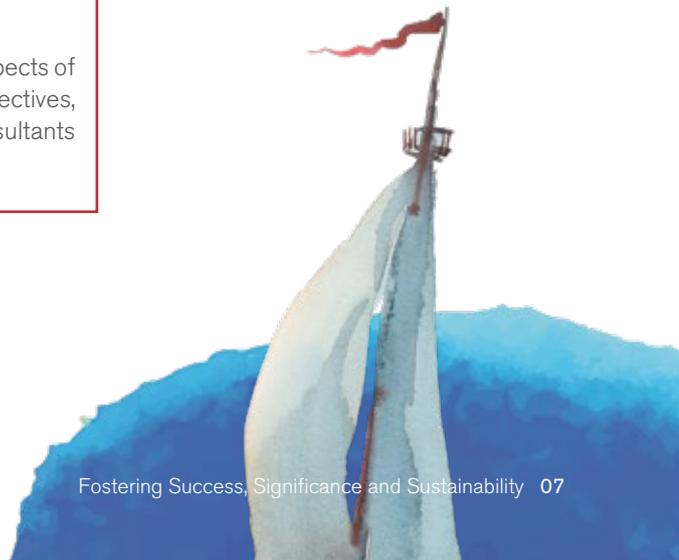
- a. View succession as a protracted and continual process. Communicate current concerns and future expectations of FBs. This allows a more coherent transgenerational business strategy to be formulated during leadership transitions.
- b. Facilitate successful transition to the next generation of leaders by beginning the mentoring process of potential successors early. This provides sufficient time for the new generation to gain a nuanced understanding of the business and a broader perspective of the environment.
- c. Assess the capabilities and character of potential family successors. Appoint a successor who reflects the right values and motivation, on top of honouring meritocracy so that the founder's mentality will be preserved and that the business will continue to grow.
- d. Adopt a more holistic view of succession, which encompasses household and family succession, management succession and asset succession. Asset succession can include both the tangible (physical and financial capital) and intangible (philosophy, culture, expertise and network) aspects.
- e. Create a healthy environment where the older and younger generations can exchange views with veracity. Gradually, the younger generation should be given more opportunities to make strategic decisions as they acquire more competencies.
- f. Keep an open mind towards including external expertise in both the aspects of successors and succession. External successors can bring new perspectives, competencies and networks. External professional help such as consultants can help FBs put together a more robust succession plan.

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“We have to have humanity, tolerance, compassion, kindness in the way we conduct business, because we always talk about wanting to do something good for society. And you can only do something good for society if you also have an open relationship to each other and a warm heart.”

- Dr Harald Link, Chairman, B. Grimm

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# Conclusion

Stewardship has never been more relevant to FBs than it is today. In a volatile, uncertain, complex and ambiguous environment, it is becoming increasingly challenging for FBs to foster success, sustainability and significance. A central question that we want to address in this document is:

“How does Family Business thrive and sustain growth while enhancing the wealth of its stakeholders and the well-being of the societies in which it operates over the long term?”

The distillation of the Seven Stewardship Principles is an attempt to demystify how successful and enduring FBs have managed to do well over the years, despite the onslaught of challenges. As what the Principles posit, fundamentals such as purpose and values remain important, and so are long-term and forward-looking strategies.

As what we have alluded to earlier, stewardship is a journey and the business context is dynamic. Along this vein, these Principles can be viewed as “living principles” which can be prospectively enriched by continued dialogue. We welcome subject matter experts and FBs to embark on this journey with us to sharpen our understanding collectively, and be partners in the endeavour to promote and foster stewardship.

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“Whether it is family executives in businesses or whether it is business families, they are simply for me, responsible businesses that they have to learn to be professional so that they can be sustainable. In the end, it is all about governance, about transparency, about wanting to safeguard the legacy and learning all the good values in doing well, doing good and doing right.”

- Ms Claire Chiang, Co-founder,  
*Banyan Tree Hotels & Resorts*

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# Acknowledgements

The development of the Stewardship Principles for Family Businesses has been the result of intensive research and extensive consultation. More than one hundred journal articles and research reports on family businesses covering a wide range of industries across and beyond Asia were reviewed.

Following from the literature review, the first draft of the Stewardship Principles was distilled and shared during the focus group meeting held at the 2018 Stewardship Asia Roundtable. Comprising eminent local and overseas family businesses, professional associations, academic institutions and think tanks, these participants from various countries provided invaluable insights and thoughtful comments on the draft. The draft was then refined after taking into consideration their qualitative inputs.

We would like to thank all our illustrious meeting participants for sharing generously and contributing significantly to the crafting of the Stewardship Principles. Many brought their wealth of knowledge and experience to the discussion and provided us with nuanced expositions of stewarding FBs. Some carefully reviewed the draft and provided intellectual inputs that enabled us to incorporate multiple perspectives. Some provided editorial inputs that helped us articulate the principles in ways that could resonate better with family businesses. All participants had in one way or another helped us along this journey and we could not thank them enough for their time and expertise.

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**Stewardship Asia Centre**

60B Orchard Road, #06-18, Tower 2, The Atrium@Orchard, Singapore 238891