THE 7 TRAITS OF ENDURING FAMILY BUSINESSES

Key Factors for Effective Steward Leadership in Business
EXECUTIVE SUMMARY

Stewardship Asia Centre spearheaded a study in 2017 to explore the values and practices of businesses whose leaders embraced and whose organisational priorities embodied stewardship. A sample of 200 successful and enduring family businesses – companies across Asia Pacific that had experienced at least one generational change and reached a proven level of profitability, that could serve as a model for stewardship was surveyed. The survey questions centred on how these organisations plan for change, interact with stakeholders, and involve themselves in the larger society.

The survey findings revealed how the leaders of these organisations perceived stewardship to be embodied by their businesses and the role individuals played in enacting stewardship. Seven leadership and organisational traits were identified from the survey responses by these successful and enduring family businesses:

1. Purpose 5. Adaptability
3. Long-term Vision 7. Care for Employees
4. Trustworthiness

Respondents also identified significant challenges to stewardship practice such as short-term thinking and the regulatory environment. The definitions of stewardship differ significantly based on age – we see distinction depending on whether the organisation is under 50 years of age (U50) or over 50 years of age (O50). These insights help pave the way for future research on the practice of stewardship and inform organisations of the traits that have enabled other businesses to achieve long-term wealth creation.
CHALLENGES TO STEWARDSHIP

Leading an organisation is like navigating a ship through the eddies of a changing geopolitical landscape and rapid technological disruption. Businesses therefore need to build up long-term capacity from within to guard against short-termism.

Many organisations have managed to withstand these challenges and see themselves through generational change. Stewardship is the compass with which successful and enduring family businesses have navigated the demanding business environment that threatens their longevity. Acknowledging this reality, the survey was generated to distil stewardship perspectives with these lines of enquiry in mind:

- What steps do companies take to plan for the future?
- How do businesses adapt to the changing environment?
- How do organisations engage with the community?
- What are the top priorities of these companies when planning for success?
- What value is placed on inter-organisational relationships?

The responses to these questions reveal how family businesses have embraced stewardship values to weather the challenges and find success. The results point to how leadership and a long-term vision are foundational. Several stewardship traits also surface repeatedly among enduring family businesses. Finally, the responses illustrate the diversity of perspectives among organisations of varying ages.

“Stewardship reduced to its crux, is about engaged, responsible and meaningful value creation over the long term; and how successful and sustained organisations could benefit not only its stakeholders in an inclusive way, but also the larger community that they are part of.”

Hsieh Fu Hua, Chairman, Stewardship Asia Centre

STEWARDING FAMILY BUSINESSES

Our research is an exploratory study rooted in the sample of family-owned businesses in Asia Pacific that have found success and endured through the generations – hallmarks of well stewarded organisations. This study attempts to clarify the stewardship perspective of the leaders of these organisations and the organisational traits that guide their companies. The research report drives to the heart of several themes:

PLANNING FOR THE FUTURE

- Successful and enduring businesses are cautiously optimistic about change in the next 5 years. They recognise success cannot be taken for granted, even though they have been successful in the past.
- They place great value in stability, staying true to the principles of managing for the long term and being accountable to their stakeholders.
- They are confident that the next generation can carry on the legacy of running an organisation that would thrive in the face of change and challenges.
- They think the values and principles of the organisation should be inculcated in the next generation of leaders.
LEADERSHIP FOR THE LONG TERM

How does great leadership engender successful stewardship despite the significant challenges? The survey responses illustrate how such organisations have been able to endure for several generations. Approximately 41% of leaders surveyed indicated they believe top management is the progenitor of stewardship within their organisations. The majority of business leaders also think that a long-term perspective is the most important characteristic of senior leadership and for business success. Strong leadership and a long-term vision are the pillars upholding the foundations of good stewardship habits within organisations.

Elements of long-term thinking are evident in the practices of these organisations, even as they experience economic boom and bust. Steward leaders are responsible for establishing policies and practices to navigate these challenges and their behaviours reveal that long-term thinking is a prerequisite for business sustainability. Steward leaders believe in leading by example and inculcating in employees the sense of stewardship of the firm. Over a third of leaders of these companies believe a long-term perspective is necessary to achieve success in their personal lives as well. By expressing purpose, community awareness, long-term vision, trustworthiness, adaptability, social responsibility and care for employees, these organisations have demonstrated how stewardship of a business can be achieved.

- 77% of family businesses believe having a long-term vision is key to effective stewardship
- 68% find the talents and skills of employees to have the greatest impact on stewardship
- 54% are forward looking and think their organisations will change significantly within 5 years
THE SEVEN STEWARDSHIP TRAITS

Survey results reveal seven stewardship traits that have allowed organisations to endure for several generations, despite facing significant challenges in geopolitics, government regulations and disruptive technologies.

1. Purpose
Have a clear sense of why the firm exists

Businesses are more than just a set of economic inputs and outputs. The family businesses that endure understand this. 80% of family businesses agree that their organisation has a clearly articulated purpose, which is crucial to the development of the organisation.

Values, as espoused by the leadership, help in the achievement of the company’s mission. Wholesome values that carry across well facilitate employee engagement. Family businesses believe a key staff contribution would be to embrace company values and create a positive culture.

The importance of purpose and values extends to succession planning. Successors are expected to exemplify the purpose and values of their organisations. 50% of family business leaders think continuity of the principles and values of the current leadership is a key characteristic they are looking for in future leaders.

“The vision of embracing the environment and empowering people form the fundamental stewardship principles in driving the way we build, operate, manage, procure and engage. It is purposeful leadership that drives our value creation journey to deliver a greater good in what we do.”

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

2. Community Awareness
Community over profits

While important, leaders of the family businesses that endure know that profit maximisation is not the holy grail of business. Asked to rank their personal priorities from among a list of nine suggestions, leaders ranked wealth creation seventh. By far the highest prioritised was creating a good life for the people around them – family, employees and countrymen.

Likewise for defining organisational success – taking care of employees trumped revenue growth and profitability.

3. Long-term Vision
Building for the future

Businesses endure because they consciously build for the future.

Having a long-term outlook was ranked the second most important trait an organisation’s leadership could possess, just after trust and honesty. Additionally, family businesses saw delivering long-term results as their foremost responsibility to investors and owners.

Family businesses also saw building a sustainable organisation and safeguarding the interests of future generations as the preferred definition of stewardship.
Family businesses understand they have benefitted from the communities and environment in which they operate and having found success, think it is necessary to give back. Aside from fulfilling responsibility to their employees, family businesses also believe in improving the overall socio-economic conditions of the community, providing jobs, and helping to improve society at large.

Family businesses support a variety of philanthropic causes with the most common being education, environment, natural disasters and health. This support comes in the form of personal involvement in the causes and charities (54%), funding for specific initiatives (43%) and charitable family foundations (41%).

Enduring family businesses know it is insufficient to rest on the laurels of past successes. Aside from understanding their existing business lines and processes, successful family businesses are constantly on the lookout for ways to improve, upgrade and upskill.

78% of family businesses surveyed believe they have a good grasp on the newest technologies, suggesting they have put in place rigorous processes to keep abreast of the latest industry developments. Consequently, disruption was not viewed as a major threat with 73% of family businesses navigating the technology and disruption landscape well.

Successful family businesses understand that trust is the foundation upon which all relationships – business included, are built. This is why:

- Trust and honesty were the most important characteristics the leadership of an organisation could possess;
- Family business leaders viewed being honest and trustworthy as the second most important factor for personal success;
- Honesty and trustworthiness were viewed as the most desired traits in employees; and
- Most organisations viewed effective stewardship as synonymous with building an organisation based on trust and motivating all stakeholders.

“Developing a sense of trust is important in our business world. During my father’s time, we were trading hardware and tin plates with customers in the region based simply on trust. Orders were made with just one phone call, and shipments would follow with no contracts. It was based on just word-of-mouth and payments due will be honoured.”

Daniel Teo, Chairman and Managing Director, Hong How Group of Companies and Director, Tong Eng Group of Companies

In fact, the second most common belief about the next generation of family business leaders was that their tech savviness would take the organisation to greater heights. Also, 75% of survey respondents saw new technologies as having a positive effect on the company’s stewardship.

The results clearly show that change is here to stay, with technology being the major area for change over the next five years and family businesses believing a life-long learning attitude is the second most important trait for employees.

Enduring family businesses understand success is built upon the mutual interdependencies within the organisation and make great efforts to strengthen these bonds and care for their employees.

From the very definition of business success, family businesses say taking care of employees is first and foremost, trumping even business profitability. They also define their top responsibility to the community as creating a good working environment for employees.

This is accomplished chiefly by being fair in recognition of hard work and success, providing training and career development, and helping employees succeed at work. Family businesses hope to cultivate a stewardship mindset – a sense of personal responsibility for the well-being of the company, in all employees.
A DIFFERENCE IN PERSPECTIVE: BY AGE

Although all of the successful and enduring family businesses surveyed value the seven stewardship traits, evidence points to different perspectives on how these traits should be put into practice. Depending on the age of the organisation, different trends emerge in how companies subscribe to these values. The drivers of certain stewardship trends and the exceptions to these trends were distilled once the responses of organisations over 50 years of age (O50) were compared to the responses of organisations under 50 years of age (U50). The variation in responses was only reported if there was approximately a 10-percentage point difference or more between the responses of the two groups.

One of the more insightful differences discovered relates to the definitions of stewardship the two groups identify more with. The younger organisations are more likely to define stewardship as “leadership cultivates a sense of personal responsibility for the well-being of the organisation in all employees,” while older organisations believe “building an organisation based on trust and motivating all stakeholders” is the best definition. Younger organisations also tend to have less faith in government and desire increased transparency from the state. However, both groups of organisations hold very similar views on the role of trust and honesty in an organisation, maintaining that these values are necessary all the way from top management to general staff.

VALUES

Under-50 companies believe more in the ability of the next generation of leaders than Over-50 companies. Increased cynicism on the part of the older companies might drive this trend. Furthermore, younger companies think the new generation of leaders will embody tech-savviness, inherited values, and new corporate culture.

ADAPTABILITY

In a classic case of old versus new, Under-50 organisations are more likely to display adaptability through staying up to date on technology and organisational restructuring. On the other hand, Over-50 companies feel less confident in their ability to adapt. They believe their organisations will largely remain the same and, if change is necessary, the impetus should originate with leadership.
INVESTOR RELATIONS

The only significant difference in relationship trends among organisations by age group is their beliefs on how investors could aid their organisation. Under-50 companies wish that investors would better understand their societal impact, while Over-50 companies desire more open lines of communication.

ESG

Perhaps due to rising social consciousness, younger family-owned businesses are more likely to consider Environmental, Social and Governance (ESG) factors when making investment decisions.

RESPONSIBILITY

Younger organisations have a greater association between managers and stewardship, indicating they believe responsibility for establishing a stewardship culture lies with leadership. They are also more confident in their ability to satisfy familial interests. Older organisations prioritise their responsibilities to employees by beginning with career development. This prioritisation by older companies may reflect how their employees might tend to stay with the companies longer relative to the ‘gig economy’ concept generally more prevalent among younger companies.

SOCIAL IMPACT

Under-50 organisations appear more eager to create social impact. For example, their top priorities for engaging the community are helping to improve society at large and establishing a good work environment. They are more likely to donate to educational and environmental causes. Over-50 companies see their top priority to the community as involving their employees in the community. Older companies are also stronger believers in sustainable business.

U50
- Are more eager to create social impact.
- More U50 companies support education and the environment philanthropically than O50 companies. This could be due to the rising costs of and need for education, alongside awareness of environmental issues.
- In contrast, more O50 companies believe helping to improve society at large and creating a good working environment are the top priorities.
- U50 companies are more confident that their personal and institutional investing is aimed at improving society than O50 companies.

O50
- 10% more of O50 companies believe sustainable business is crucial for success than U50 companies.
- 10% more of O50 companies believe their organisation’s top responsibility in the community is involving their employees in activities to help the community.
CONCLUSION

Stewardship is about taking a holistic view of stakeholders and the community, and working towards a better future for all.

This study of 200 successful and enduring family businesses from across Asia Pacific has conclusively demonstrated that stewardship is not incompatible with business success; indeed stewardship is the cornerstone upon which Asia Pacific’s enduring family businesses built their success.

Despite challenges to business continuity such as geopolitics, government regulation and disruptive technologies, the survey uncovered seven stewardship traits that have enabled organisations to find success across multiple generations. By expressing purpose, community awareness, long-term vision, trustworthiness, adaptability, social responsibility and care for employees, these 200 family businesses have endured and thrived.

The results also revealed an interesting trend – that age influences how family businesses embrace the stewardship traits. Two broad categorisations are evident – organisations of over 50 years of age (O50) and organisations under 50 years of age (U50).

U50 companies generally are more confident in the next generation of leadership, are more tech savvy, embrace change, and are more likely to adopt ESG guidelines in business. O50 companies, meanwhile, are more traditional, believe in contributing to societal improvement and are more likely to involve employees in activities to help the community.

Irrespective of companies’ age, what is clear is that the companies that have weathered the challenges to do well share the common stewardship traits of purpose, community awareness, long-term vision, trustworthiness, adaptability, social responsibility and care for employees.