

What's the normal kind of business structure throughout the world these days? A public company, shares bought and sold every day, perhaps hundreds or thousands of shareholders: is that the instinctive reply? Well, it's wrong.

The family way

World brands such as Mars, Peugeot, Paco Rabanne, TetraPak or Marriott Hotels are family businesses. And they are not the exception. In the US, around 85% of all enterprises are family firms generating 50% of GDP, 60% of all employment and two thirds of new jobs created.

It is family businesses that have frequently pioneered and grown key sectors with a dynamism that has left rivals far behind. In a vast range of industries and markets across the world this continues today. It is a form of business with a particular natural strength in Asia.

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INSEAD plays a major world role in creating knowledge on the specific conditions and issues of family business. Through research, case study development, roundtables, executive programmes and an MBA elective, family business is a key concern for INSEAD. A roundtable session earlier this year brought together forty senior directors discussing the challenge of ownership. Since the MBA elective is essential in understanding the next generation, testimonials from past and current MBA participants played an important role by provoking a look into the future. (See pages 10 and 11 for two of their stories.) This was followed by a one-day closed session to discuss family issues in full confidentiality.

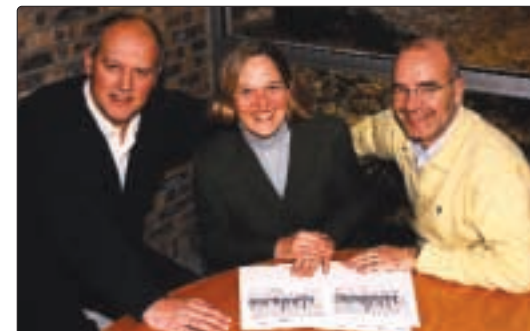
The study of family business at INSEAD was initiated by The Wendel/CGIP Chair for the Large Family Firm, held by Professor Ludo Van der Heyden. It continues to be supported by The Tetra Laval Research Fund and alumni donations.

Van der Heyden explains: "At INSEAD different academic areas bring different perspectives to bear on family issues. Family firms tend to break up because they are unfairly managed, in that not enough members are involved in the decision-making. Fair process and governance are just some of the topics we address as well as the symbiosis between family, ownership and management issues. You can't tell an uncle, brother or child to improve their performance or else!"

The Family Enterprise Challenge is another initiative launched this year. It is a course for members of business families, taught by a multi-disciplinary team and directed by Randel Carlock. For one week in July, teams of two or more family members made a learning, sharing and planning commitment in the face of changing family structures and business environments. Christine Blondel, Senior Programme Manager for Family Firm Activities at INSEAD explains the follow up. "It was decided to create a two-module format for the programme to enable participants to come back after a few months and share their results and continue planning after discussion with other families and the faculty. This is a strong element in the learning process."

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There has been considerable concern this year about corporate governance in major public firms. Accounting irregularities, CEO egos and tumbling share prices have undermined confidence. The family way, where strategies are more long term and the owners more visible, provides stability and confidence, particularly in troubled times. **IQ**



Ludo, Christine and Randel

Dynasty

Hundreds of thousands of Chinese migrated from southern China to Hong Kong, Thailand, Singapore, Malaysia, Indonesia and the Philippines at the end of the 19th century. In the main their motivation was economic.

Some of them may have been fishermen, some became tin miners, but the vast majority were traders of some kind or another. Commerce was in their blood and the opportunities in Southeast Asia seemed limitless. Most of the migrants brought with them a deep sense of the Confucian tradition which endowed them with a code of behaviour and a respect for structures in society. Hierarchies, whether based on age, authority or wealth, must be recognised. Trust is the mark of true friendship. Other elements of the Confucian ethic, such as pride in work, thrift and collective responsibility, were highly beneficial to business.

Throughout the 20th century a clear pattern of Chinese business developed in the region. Many of the firms became large diversified groups. They were entrepreneurial and opportunistic in nature. The core competence seemed to be to make money.

The Euro-Asia Centre first developed the accumulation of knowledge on business, economic and social conditions in Asia at INSEAD. It was clear in all research that an extremely important model for business foundation and growth in Southeast Asia was the Chinese family firm.

By the mid-1990s, Overseas Chinese family firms dominated the economies of Southeast Asia. For example, in Indonesia they controlled 80% of corporate assets; in Malaysia 40%. In Thailand, 90% of manufacturing, 50% of services and the four largest private banks were controlled by Overseas Chinese groups. The economic crisis in Asia from 1997 has seen some shifting in positions but not in the principles. What has gathered pace in the most recent years is the return of many families and groups to China itself as investors and partners.

The private sector has gradually re-emerged in China as reforms have rolled forward and restrictions relaxed. As Gordon Redding, Senior Affiliate Professor of Asia Business, mentions in a recent research paper:* "Business owners are now able to have party membership and registration of companies now meets no legal obstacles. Patterns of ownership within the sector are varied, but appear to be dominated by partnership and family."

The core competence seemed to be to make money

This redesign of the Chinese economy is taking place extremely fast. Current estimates are that already about 50% of GNP is coming from the private sector. So will the Chinese family firm be a major model for business in what is on the way to becoming the world's largest economy? Perhaps this quote from an article by P.Y. Huo and S.X. Si in the Asia Pacific Business review provides a signpost to the future: "The centrality of family in Chinese ethics seems now to be slowly re-asserting itself on the mainland, and although severely weakened by Communist ideology and state practices, the family is returning to act as the anchor." **IQ**

*Business Systems Theory In Socio-Economics Including The Question Of Rationality: Towards An Explanation Of The Private Sector In China, INSEAD Euro-Asia Centre Research Series N° 78.



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