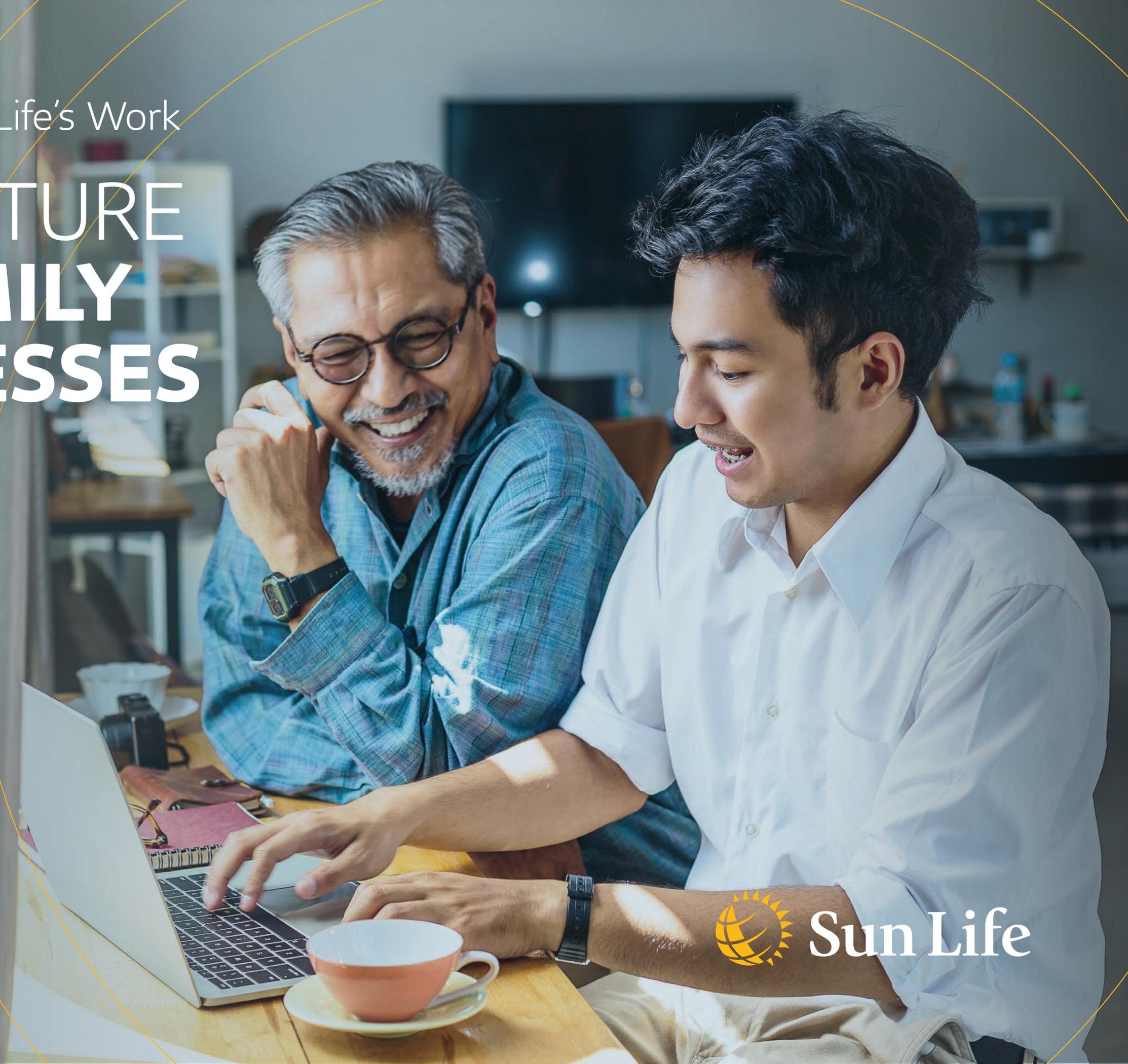


Managing Your Life's Work

THE FUTURE OF **FAMILY BUSINESSES** IN ASIA



Sun Life

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INTRODUCTION

Family businesses are the foundation of Asia's economies, a dynamic entrepreneurial force that has shaped contemporary capitalism across the region.

They improve lives and lift up communities by creating jobs, delivering goods and services, and developing new solutions to problems.

To understand how business owners operate and view the family business model, and how it will evolve in the decade ahead, Sun Life ran an extensive survey in six Asian markets at the end of 2019. The results of "The Future of Family Businesses in Asia" revealed many of the unique advantages inherent in family businesses while also uncovering their vulnerabilities, especially when viewed in the current pandemic environment.

This survey explores perceptions and attitudes to risk and business continuity planning, retirement and succession planning, and the future outlook for the family

business model. This report aims to help business owners understand the evolution of family businesses in Asia, and provide recommendations on how to strengthen their business for the future.

We undertook this survey in December 2019 as the COVID-19 pandemic was emerging in Asia but not yet known to us. Since then it has become a human tragedy and the greatest challenge to business in living memory with the dual threats of a health crisis and an economic crisis.

Our survey shows the COVID-19 pandemic is likely to weaken the competitiveness of younger businesses as they are less prepared for unexpected business challenges and disruption. Mature business owners have heightened perceptions of the range of risks facing their business and are also more likely to try to build resilience and mitigate these risks.

On issues of retirement and succession planning, however, the survey finds many mature business owners may be less prepared than they think in their plans to hand the business on to the next generation.

The survey also reveals change may be on the horizon for the family business model as the younger generation of owners sees a vastly different future in which they sell, or bring in outside management, rather than hand their life's work down to the next generation. Will that be the case, or will their perspectives change with the business lifecycle as they seem to on other issues? Only time will tell.

Whatever their plans, Sun Life is here to help business owners across Asia plan and thrive in the decade ahead. For 155 years, Sun Life has been helping individuals and businesses to offset their risks and achieve their financial and health ambitions.

We hope this research offers insights to support those ambitions and ensure family businesses remain a dynamic, entrepreneurial force in Asian society in the years ahead.

Léo Grépin
President,
Sun Life Asia

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SECTION 1

THE ASIAN FAMILY BUSINESS MODEL

Family businesses have existed for centuries and have contributed to the development of contemporary capitalism.

Today, family businesses continue to play a prominent role in economies worldwide from startups to global multinationals. According to the Family Firm Institute, family businesses account for two thirds of all businesses around the world, generate around 70% to 90% of global GDP, and create at least half of all jobs in the majority of countries worldwide.¹

¹ Family Firm Institute 2017. Global Data Points.



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Family businesses comprise around **60%** of all firms in Singapore and **70%** of listed companies in Hong Kong.

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Family businesses are the foundation of Asian economies where they dominate the region's stock exchanges. For example, nearly 70% of listed companies in Hong Kong are family businesses, and the top 15 families contribute over 80% of GDP. In Mainland China, family businesses contribute over 60% of GDP, and employ 80% of the workforce.²

In Singapore, there are many prominent and successful family firms listed on the Singapore Stock Exchange. They comprise around 60% of all SGX-listed firms and dominate most industries, including construction, hotels, property, manufacturing, services and commerce. They also generally outperform non-family firms in terms of Return on Assets (ROA).³

The evolution, succession and future leadership of family businesses is important not only to shareholders and national economies, but also the employees and communities to which they contribute. They are an important thread in the fabric of Asian societies.

Family businesses are a dynamic force in the economy, as new family firms constantly emerge and reshape the business landscape. Asia is a hotbed of startup activity fueled by its young population and number of governments offering entrepreneurship incentive programs. At the end of 2019, Asia-Pacific was home to an impressive 140 unicorns - companies with a valuation of over \$1 billion⁴. Any one of its tech-focused startups could be a family business giant of the future.

² Innovation and Technology in Asian Family Businesses

³ Asian Family Firms: Success and Succession: A Study of SGX-listed Family Firms

⁴ CB Insights: The Global Unicorn Club

OUR SURVEY OF FIRST GENERATIONAL FAMILY BUSINESSES COVERED:



1,378

Business Owners

Evenly split across 6 markets:

Hong Kong
Singapore
Philippines
Malaysia
Indonesia
Vietnam

450

Startups operating between 0 - 5 years

450

Growth companies operating 6 - 10 years

478

Mature companies operating 10 years+



Across +18 industries



\$8m average turnover



Average age 40

Male



76%

Female



24%

SECTION 2

MANAGING RISK THROUGH THE LENS OF EXPERIENCE



Perceptions of risk and risk management strategies build with time for Asian family business owners. As a result, many mature businesses are in a more resilient position to navigate the impacts of the COVID-19 pandemic than those in more foundational stages of development.

The rapid growth and rise of Asia's economies will define the 21st century as the Asian Century. In 2020, Asia was set to become larger than the rest of the world combined in purchasing power parity (PPP)⁵ and by 2030, the region is expected to contribute roughly 60% of global growth⁶.

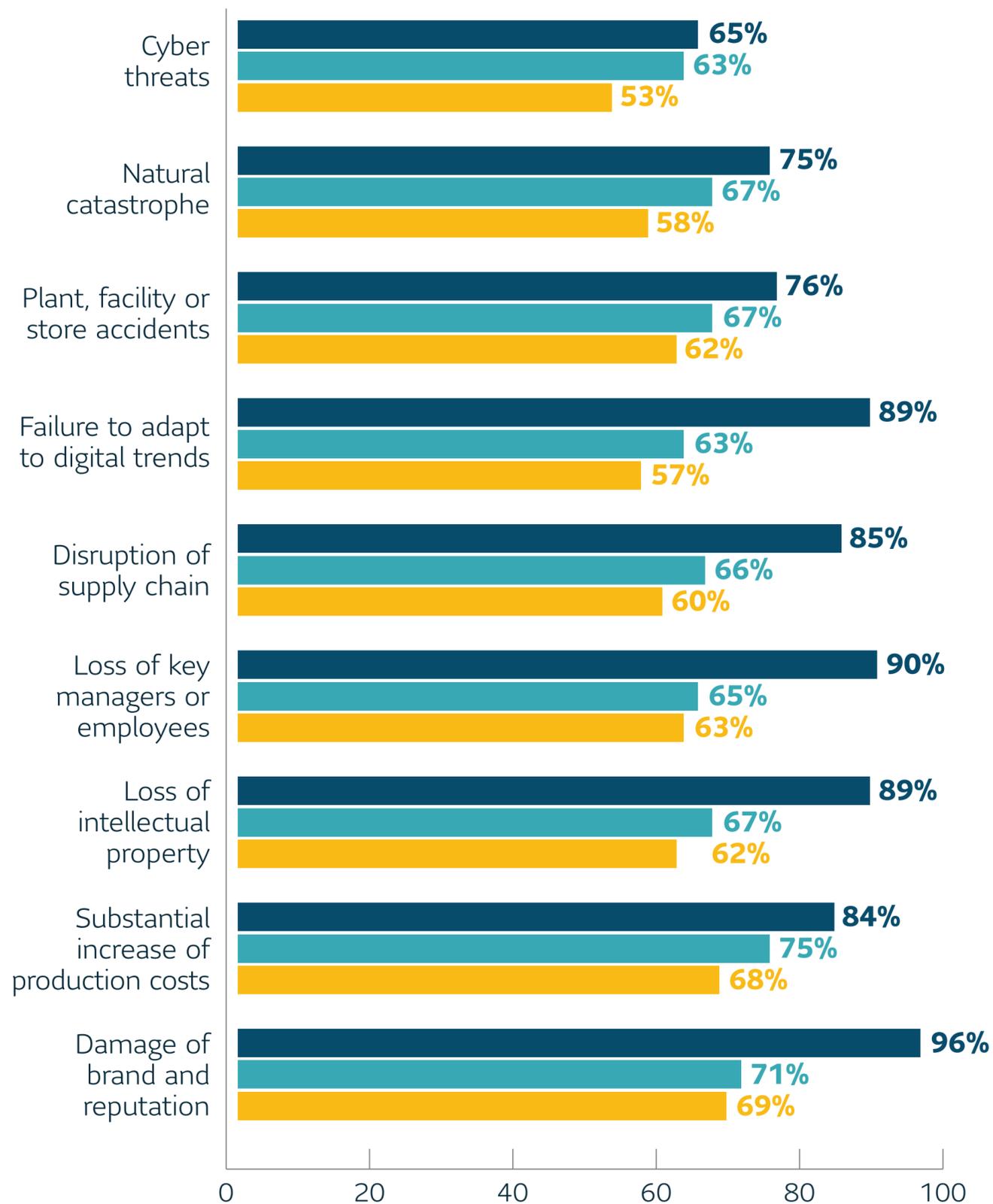
However, the emergence of the COVID-19 health crisis and resulting economic crisis has disrupted business globally. Our survey found younger Asian businesses may be less resilient to this unexpected disruption.

Mature business owners have heightened perceptions of the range of risks facing their business compared to owners of younger businesses. They are also more likely to try to mitigate these risks through mechanisms such as insurance.

⁵ International Monetary Fund and World Economic Forum

⁶ World Economic Forum and Asian Development Bank

Identified as serious business continuity threats



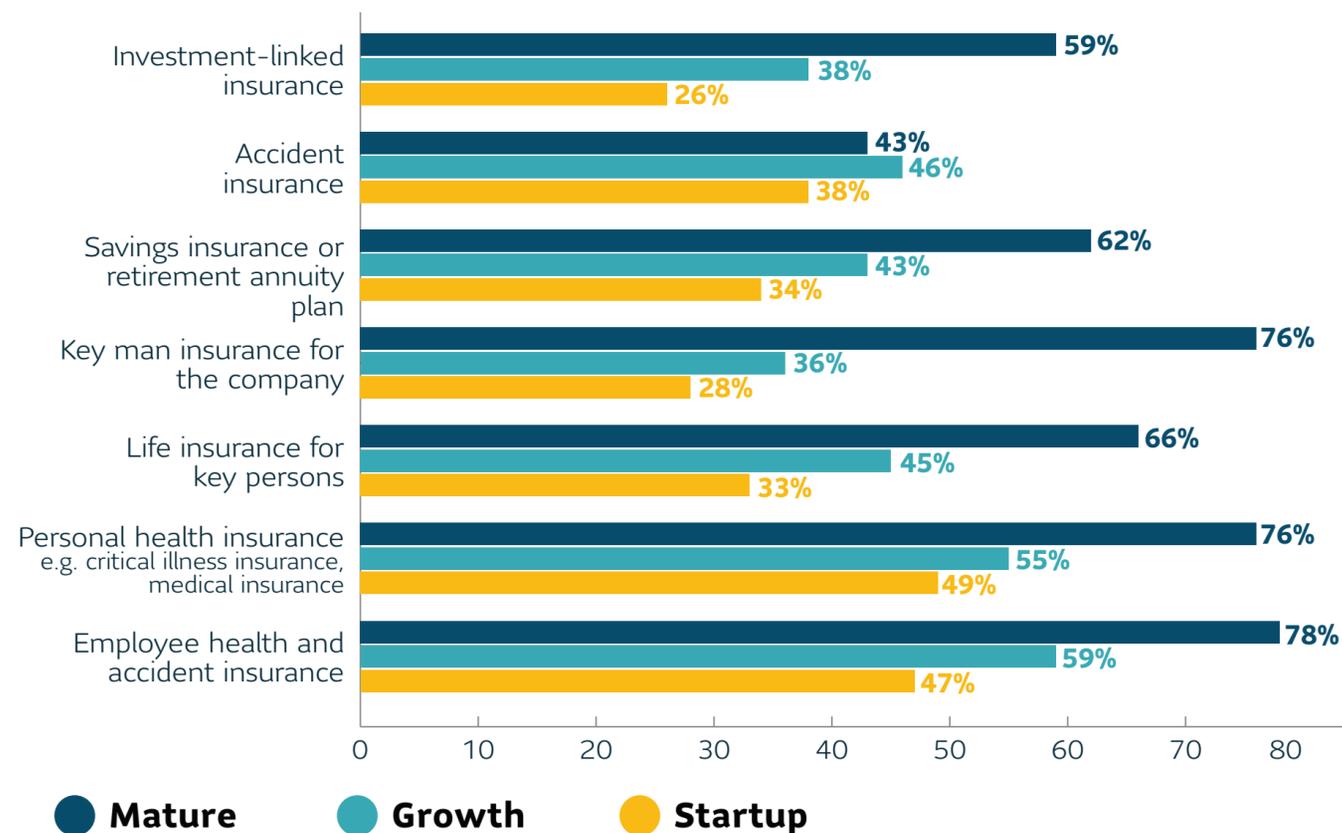
● Mature ● Growth ● Startup

The survey reveals a critical illness protection gap already existed between mature businesses and their younger startup and growth phase counterparts as COVID-19 was emerging in December 2019.

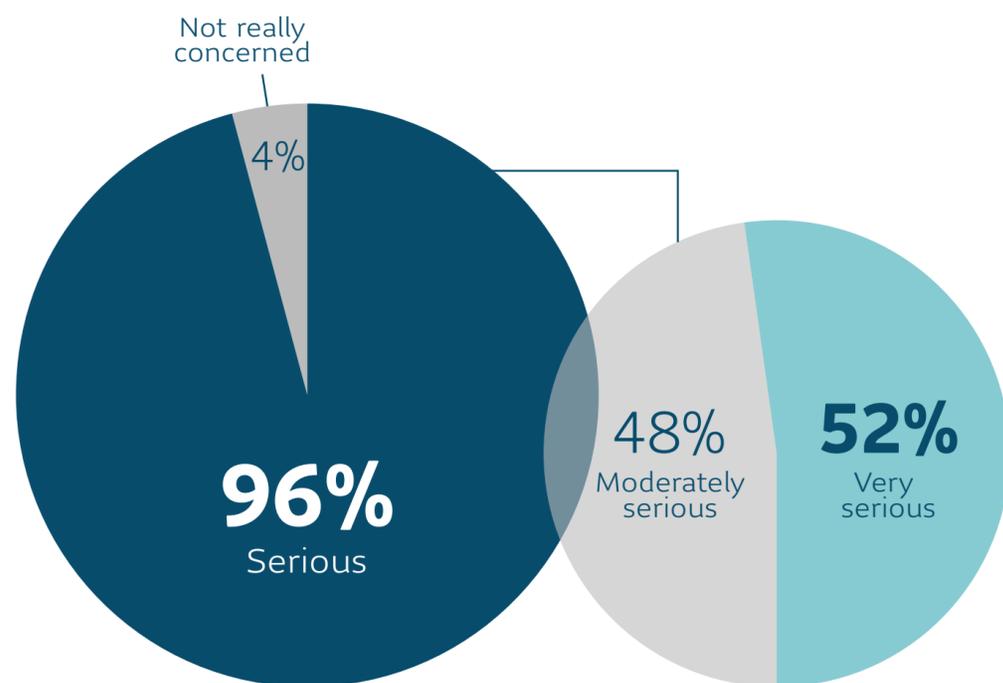
Family businesses often rely on a small bench of key decision makers to run the firm and the health and wellbeing of these leaders is integral to the health of the business. Almost all business owners (96%) reported that if they, or their key people, suffered an incapacitating illness it would be serious for their business, with more than half describing it as very serious.

However, the survey results show that mature businesses are better prepared to manage the disruption in a health crisis as 76% of mature business owners have purchased key man insurance protection. By contrast, only 28% of startups and 36% of growth business owners have done the same. Only 47% of startups and 59% of growth businesses have purchased employee health and accident insurance, compared with 78% of mature businesses.

What do you have in place to protect your business?



If you or your key people suffer an incapacitating illness, how seriously will it affect the performance of your business?



This puts mature businesses in a better position to mitigate the impact of lost productivity and attract and retain employees. The COVID-19 outbreak unfortunately proves that the health threat to business continuity is real and insurance protection can provide much needed financial support to both employees and companies. While startup and growth business owners recognized the risks prior to the outbreak, they had fewer options at their disposal to manage the impact.

As our initial findings have shown, family business owners' perceptions of risk evolve with time as they manage through the lens of experience. While most business owners protect against unforeseen risks to their capital assets (like fire and theft), risks to human capital are often overlooked. Health is expected to become a greater business continuity priority in future.



Younger businesses less prepared to face the impact of COVID-19

The COVID-19 pandemic is likely to weaken the competitiveness of younger businesses as they are less prepared for unexpected business challenges and disruption.

The vast majority (96%) of Asian business leaders fear an incapacitating illness for them or their key staff would seriously affect their business performance, yet many don't have protection schemes in place to mitigate the impact.

Mature businesses are better prepared: 76% have purchased personal health insurance and 78% have key man insurance.

By contrast, only 28% of startups and 36% of growth businesses have purchased key man insurance, and 49% of startups and 55% of growth businesses have purchase personal health insurance protection.

SECTION 3

PLANNING FOR THE FUTURE: RETIREMENT & SUCCESSION PLANNING

Transitioning out of the business gives business owners the opportunity to realize a valuable source of retirement income and move on to another passion. Yet handing over control of your life's work takes careful planning and our research found some owners may be stuck at a crossroads.

Almost all (97%) family business owners surveyed have considered their exit plans and 82% have started their succession planning. All mature business owners see succession planning as an opportunity and 71% describe it as a major opportunity. While the business represents a source of income for many business owners, the value of the business can also represent the primary source of income in retirement and an opportunity to explore other interests.



Aspirations around retirement evolve with the lifecycle of the company. Startup owners, on average, want to retire at 48 years old and growth business owners at 50. Yet mature business owners expect to retire at around 58 years old on average. We see the younger retirement age of startup and growth business owners as aspirational, whereas the expectations of mature business owners reflects a realism that comes with experience. People often underestimate how much they will need to retire to live comfortably and the time it takes to accumulate it.

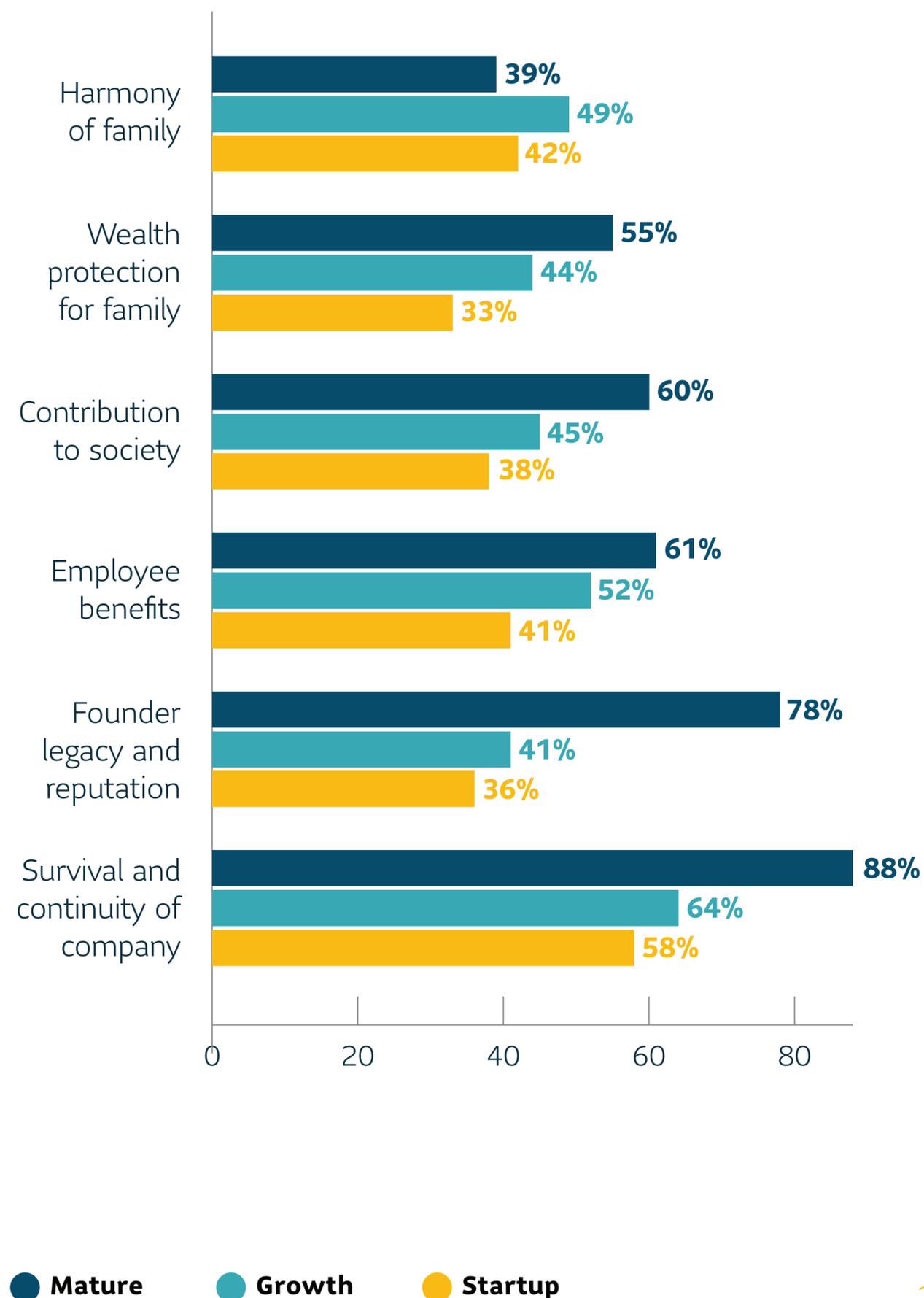
The top succession planning priority for all business owners is the survival and continuity of the company (71%), especially among mature business owners (88%). Moreover, preserving the founder's legacy and reputation becomes a big priority for mature businesses (78%) and fewer are concerned about family harmony (39%).



Startup owners in Indonesia want to retire at **47** on average and mature business owners at **58**.



What is important in business succession planning?



The COVID-19 health crisis has caused much uncertainty for businesses globally. It may drive owners to work even longer, especially given the survival and continuity of the company is the top priority in their succession planning.

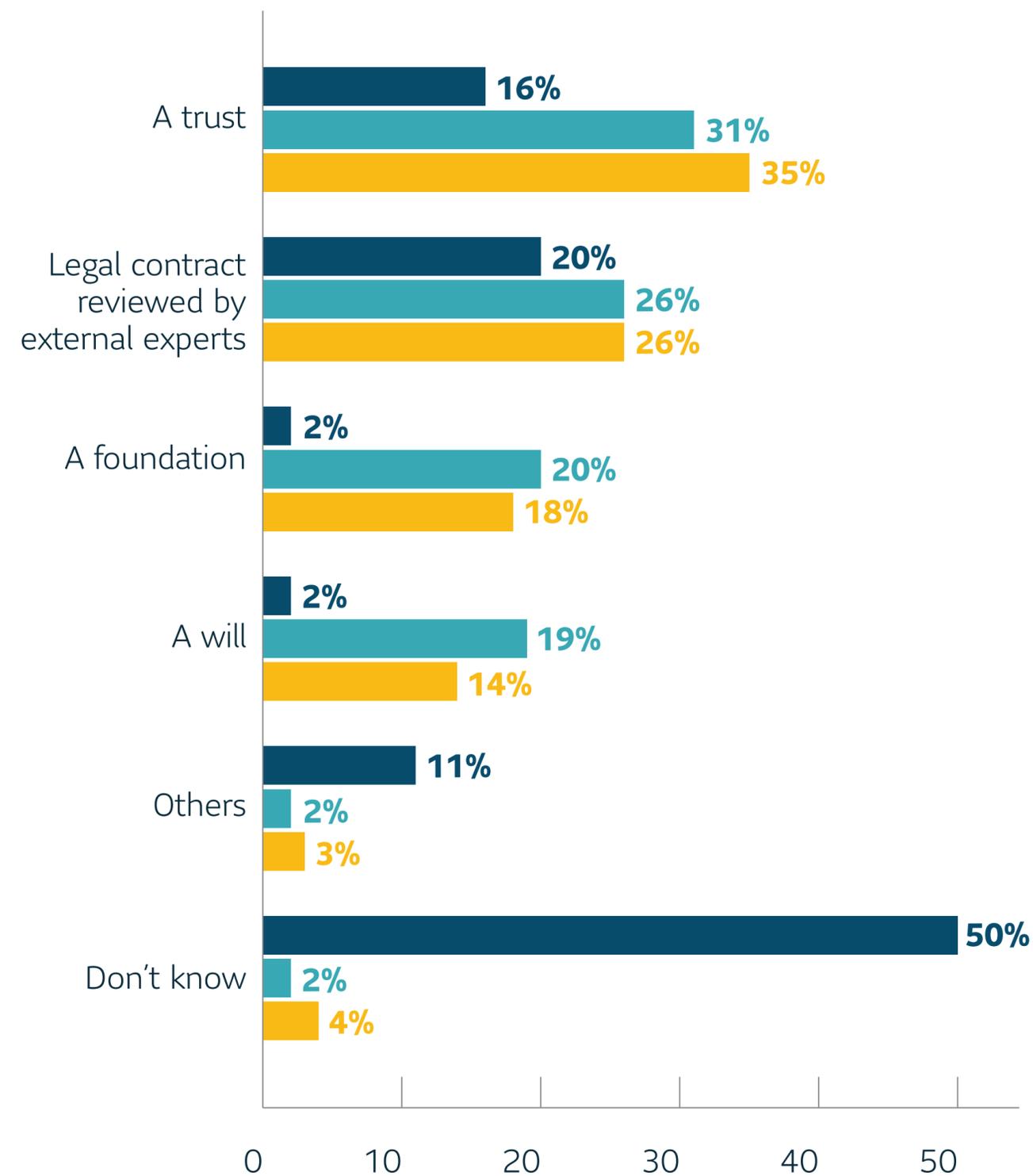
When considering exit strategies, around half of family business owners prefer to pass the business on to their children or other family members. For mature business owners, this is the majority preference at 67%, but they may be stalled in their plans and reluctant to seek help.

While mature business owners are aware of the need for succession planning and to do it early, half of them do not know which governance structure they will use, and a staggering 79% will not seek external advice on succession planning issues. Owners of startups and growth businesses are much more open in seeking advice.



“**84%** of mature business owners in Vietnam will not seek external advice on succession planning.”

What is your preferred formal governance structure in business succession planning?





The top concern for family business owners after their retirement is that the change in management style impacts business efficiency. However, on the whole, Asian family business owners are highly optimistic about the future of the business in the hands of their successor as 88% believe the business will be performing better five years after they retire.

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84% of family business owners in Singapore expect the business to be performing better 5 years after their retirement.

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However this may be a case of misplaced optimism. According to research by Professor Joseph Fan at the Chinese University of Hong Kong, listed family firms lose almost 60% of their value in the first transfer of power, when the founder steps down⁷.

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52% of family business owners in Malaysia are concerned the change of management style after their retirement will impact business efficiency.

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⁷ Professor Joseph Fan and Morten Bennisden: *The Family Business Map: Assets and Roadblocks in Long Term Planning*

SECTION 4

EVOLUTION OF THE FAMILY BUSINESS MODEL: A GENERATIONAL STEP CHANGE



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53% of business owners in Hong Kong feel that digital transformation poses a great threat to family businesses.

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Family business owners agree on the fundamental advantages of the business model but are divided on the future outlook, suggesting the model may evolve with the younger generation of leaders.

Looking ahead, family business owners broadly agree on the fundamental advantages of the business model and are upbeat on the outlook. They see family businesses becoming more competitive, expanding and making greater contributions to society in the future.

Most owners believe that family businesses will become more competitive (81%) and deliver more technological or business innovations (77%). They also believe that the average age of new business founders will be significantly lower (73%). But just under half (49%) also feel that digital transformation poses a great threat to family businesses.

Around 60% of owners agree that the family business model has many advantages over non-family run peers such as commitment to the firm, good relationships with customers and stakeholders, long-term perspective, uniformity of purpose and mission, and fast decision making.

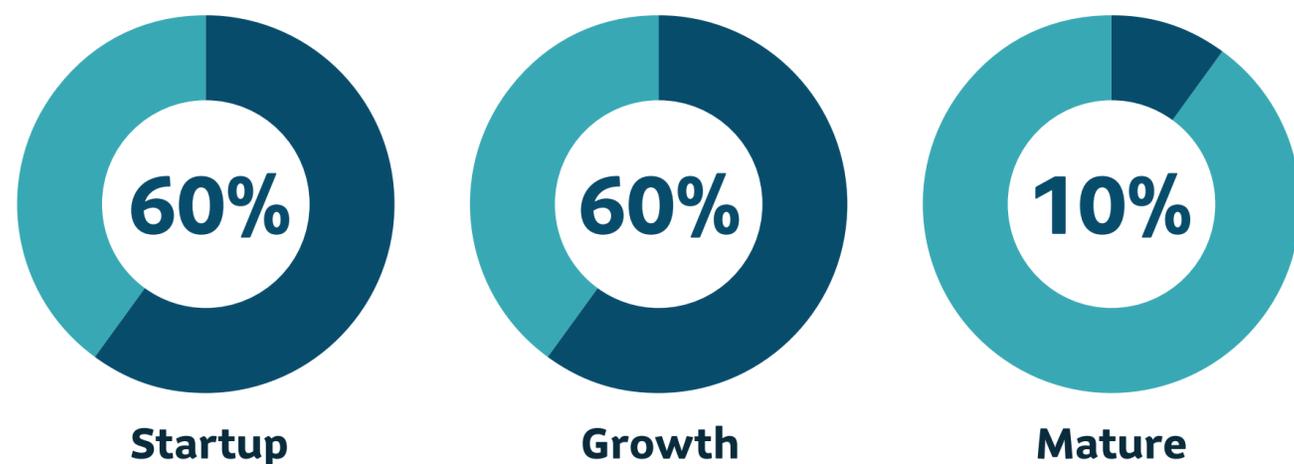
However, the research reveals differing perspectives between younger and mature business owners on the future of the family business model itself. The younger generation of business owners believe the model will change as more founders sell their family business or bring in outside professional managers to run it, resulting in fewer family-owned businesses in future. Mature business owners, however, hold very different opinions.

Most startup (70%) and growth business (72%) owners expect the number of family-controlled businesses to decrease as professional managers from outside the family are placed in charge in future. By contrast, only 10% of mature business owners see that happening in the years ahead.

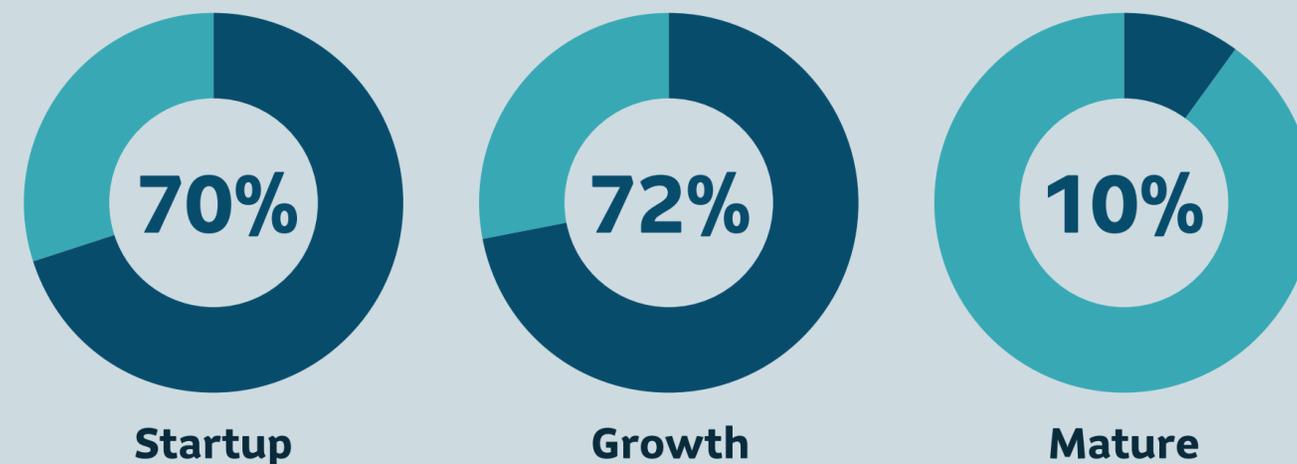
In addition, nearly 60% of owners of startup and growth businesses believe that more founders will prefer to sell businesses before they retire instead of passing it to children. However, only 10% of mature business agree.

The diverging perspectives suggest the Asian family business model could be set to change with the next generation of owners. What is certain is that the focus of owners' forward planning will shift along with their priorities as their businesses move through the stages of the business life cycle from startup to growth and then maturity.

More founders prefer to sell businesses before they retire instead of passing it to the next generation



The number of family-controlled businesses will decrease. More enterprises will be run by professional managers outside of the family



RECOMMENDATIONS FOR BUSINESS OWNERS IN ASIA

The COVID-19 pandemic has caused serious social and business disruption across the Asia region. While the first priority for business owners is safeguarding their people and assessing cash flow impacts, the next step is to map the threats and stress test as part of contingency planning. Map the health and economic impacts across the business and stress test scenarios for different timeframes.

It's important to take a holistic and long-term view in business planning as the business environment facing companies may be very different once the pandemic is over. Recessions always end and well-prepared companies can emerge stronger out of economic downturns. Planning for the medium to long-term should consider:



Closing the protection gap to provide better security for employees, ensure business continuity and attract talent

Companies should undertake a comprehensive insurance protection analysis for employees, and especially key managers. Health and accident protection for employees, insurance for key executives and key man insurance can build resilience to future health risks and provide peace of mind to employers and employees. In comparison to mature businesses, younger enterprises often lack the financial and human resources to deal with unexpected events. Insurance helps bridge this gap and ensures business continuity.

The outbreak of COVID-19 has put health protection in stark reality for employees, making it a critical criterion in choosing their employers. Insurance benefits offered by employers will play a significant role in attracting and retaining talent in the long run.

Seek customized financial solutions at different stages of development

The business landscape in Asia is currently undergoing accelerated change. Even under normal or stable economic conditions, business owners need to consider different financial solutions to support and grow their businesses as they transition through different stages of development and take different succession paths. This includes professional advice on risk management, ownership/management transition, tax, and retirement and trust planning. Our research shows that attitudes on when to retire and who to pass the business on to change as businesses mature. Flexible solutions for shifting development paths will help owners stay adaptable while supporting growth.





Flexible & well-prepared retirement planning

While many business owners plan to retire early, some will continue to work even when they reach retirement age. Their decisions may change as the economy and business performance goes up and down, especially if an owner is relying on the value of their business to fund all or a major part of their retirement income.

Any business succession plan must include an assessment of what the retirement income needs will be, the steps that are needed to help ensure the retirement capital is protected, and a strategy to unlock the value of the business to meet retirement income needs.

However, retirement issues can be complex when a business is involved. The issues related to valuing and selling a private business, and dealing with related tax concerns, can be complicated. Owners with much of their net worth tied up in the business are less diversified, resulting in higher investment risk. If the plan is to see the business continue, extracting income and/or capital for retirement may weaken the business or even cause it to fail if the need for steady retirement income is out of sync with shifting economic cycles. The recent coronavirus pandemic is throwing a spotlight on this concern. Business owners should address these retirement issues well in advance of their expected departure from the business if they are to best protect their retirement income and post-retirement security.

Seek external expert advice in succession planning

Some business owners may see succession as a private matter not to be shared with outsiders. In reality, there are professional consultants who can provide holistic succession planning support while maintaining confidentiality. Adopting a more open mindset to succession planning can help create more structured arrangements which benefit all family members.

Many business owners assemble a specialized team made up of family members, senior management, and outside advisors for the specific purpose of developing an effective succession plan. The team usually consists of someone with a “big picture” perspective to coordinate the process. The owner’s accountant and financial advisor – often an insurance professional with financial planning experience – can assist in putting the right team together.

An alternative is to hire a firm specialized in providing complete management services to achieve an effective business succession plan. These professionals may include psychologists, human resource specialists, lawyers and accountants. Together they can help in identifying potential successors and provide assistance in overcoming the wide variety of miscellaneous technical issues involved in the process. As they have no past nor future relationships to protect, they are in a better position to provide objective advice and effective support.



CONCLUSION

There remain many advantages to running a family business in Asia. But Sun Life's inaugural survey of Asian business owners suggests there may be change on the horizon in how these businesses are owned and managed. The COVID-19 pandemic has created serious challenges for businesses that further complicate the issue, albeit, hopefully only over the short term. While the first priority for business owners is steering their businesses safely through the pandemic, there are opportunities for nimble and well-prepared operators. The survey has shown family business owners may be managing risk through the lens of experience and undoubtedly the COVID-19 crisis will leave an enduring lesson in the importance of business continuity planning and building resilience to health threats.

As they look to the other side of this crisis, Sun Life encourages business owners not to lose sight of their longer-term plans and to take a holistic view of the range of financial solutions available to offset their risks and protect and strengthen their business and succession plans for generations to come.