

Why family firms matter to emerging economies

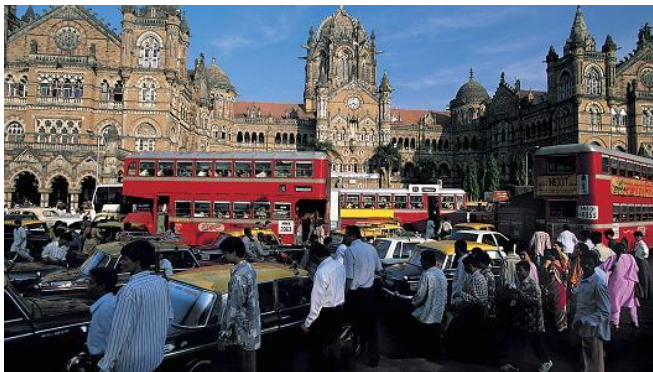
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Family-run firms contribute up to 90 percent of the world's economy and, while Germany's generational Mittelstand have grabbed the headlines, it is in emerging and developing countries where dynastic companies are most important.

In India, for instance, family firms account for 90 percent of the country's industrial output and 27 percent of employment, according to data cited by KPMG. Family-owned firms can also be found among some of India's largest companies as well as small- and medium-sized ones.



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"What most people don't realize is that family businesses are actually the engines of economies. For all the noise and razzle dazzle of public companies, it is actually family businesses that have the power," Nicholas Moody, editorial director at Campden Wealth, told CNBC.

Here's a look at what makes family-owned companies in emerging economies different from the West—and what they have in common.

Keeping it in the family

Companies in emerging markets (EM) appear more likely to remain in family hands than in the Anglo-Saxon world.

"This is major difference between companies in developed and developing countries. Developing world companies continue to see persistence of family control even when fairly large, even when stock market listed," Sumon Bhaumik, a professor at the U.K.'s Sheffield University, told CNBC on Tuesday.

"In the U.K., for example, you would have a company starting out as a family firm, but by the second generation, perhaps as many as one-third are no longer family firms... In Asia, family firms persist over a much longer period of time—multiple generations."



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Annie Koh, associate professor at Singapore Management University, told CNBC that while family firms in South East Asia tended to be second- and third-generation, some European businesses have passed through 15 generations or more.

"In large parts of South East Asia, business and family are largely inseparable and in India, for example, the family business is a source of the social identity of the individuals belonging to the family," said Koh.

But developing world companies are starting to look to European models of governance, where family ownership is coupled with strong professional management. For example, after 41 years at the helm of [United Overseas Bank in Singapore](#), Wee Cho Yaw appointed a non-family chairman to replace him, instead of his son Wee Ee Cheong.

'Aggressive' expansion plans

EM family firms are more likely to look for rapid expansion, rather than the steady growth favored by their Western counterparts.

According to a report published by PwC last month, 57 percent of family firms in China and 40 percent in both the Middle East and India aim to expand "aggressively" over the next five years. This compared to 5 percent in Germany, 8 percent in the U.K. and 16 percent in the U.S.

In addition, EM firms may be more open to branching out into different business lines, following in the footsteps of behemoths like South Korea's [Samsung](#), which started life selling groceries before diversifying into a vast arena of industries, most notably electronics.

"South East Asian families tend to like to be in diverse business—partly to manage risks and grow different lines of business. And when they grow global, they like to seek out other family firms across different regions, as the trust factor is critical," Koh told CNBC.

In it for the long-term

Successful family firms across the globe are united in their long-term outlook, according to Andrew Porter, the director of research at Campden Wealth.

"One of the typical parts of the Mittlestand is the long-termism, because they don't have to answer to shareholders on a quarterly basis," Porter told CNBC.

"In Asia, Africa and the Middle East, successful family-owned business in the first-, second- and third-generation report that they are still building the foundations of the business, 20 or 30 years after starting out... Really, they have that same mentality of for life."

Planning ahead involves preparing the next generation for their role the firm. This is a particularly thorny issue in China, where the one-child policy can leave a dearth of likely successors. Preparation can include time spent at rival or related companies, as well as university education overseas.

Koh said that in South East Asia, the training period took between five and 10 years and might involve helping drive the firm into new markets.

"That's the Asian way of grooming their next generation to earn creditability for them to take over," she told CNBC.